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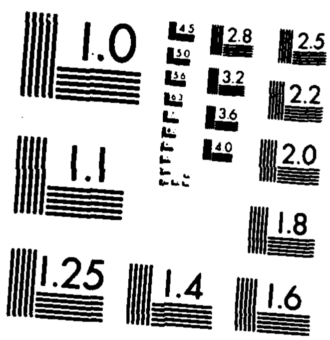
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Monterey, California

THESIS

BUDGET CONTROL AND EXECUTION IN THE
FLEET MARINE FORCE

William Reynolds Wilson IV

June 1986

Thesis Advisor: Jerry L. McCaffery

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This thesis examines budget control and execution in the Fleet Marine Force. The past performance of selected major subordinate commands was examined for FY85 and the budget officer of each command was interviewed. The information gained from the interviews, combined with the data gathered from the budgets and performance statements of the selected commands, revealed significant problems in control and execution. The PPBS process, the timing of the guidance received and issued, the use of ceilings and obligation rates as control measures, the Marine Air/Ground Financial Accounting and Reporting System, and the impact of the Marin Corps' reward system on the conflict between the Marine Corps' philosophies of financial management and operational reality, were the main problem areas identified.

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Budget control and execution in the Fleet Marine Force

by

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Captain, United States Marine Corps
B. A., The Citadel, Charleston, South Carolina, 1977

Submitted in partial fulfillment of the
requirements for the degree of

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ABSTRACT

This thesis examines budget control and execution in the Fleet Marine Force. The past performance of selected major subordinate commands was examined for FY 85 and the budget officer of each command was interviewed. The information gained from the interviews, combined with the data gathered from the budgets and performance statements of the selected commands, revealed significant problems in control and execution. The PPBS process, the timing of the guidance received and issued, the use of ceilings and obligation rates as control measures, the Marine Air/Ground Financial Accounting and Reporting System, and the impact of the Marine Corps' reward system on the conflict between the Marine Corps' philosophies of financial management, and operational reality, were the main problem areas identified. This thesis examines these problems, their impact on budget control and execution, and makes specific recommendations to reduce and/or resolve them.

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ACKNOWLEDGEMENT

This thesis would not have been possible without the enthusiastic cooperation and candor of the financial management community in the Fleet Marine Force and the unstinting support of Professor Jerry L. McCaffery (thesis advisor) and Lieutenant Colonel David E. Melchar (second reader).

The willingness of the Financial Management community (from Colonel Updike, the head of the Budget Branch at CMC, Colonel Stringer, the comptroller for FMFPac, and Lieutenant Colonel Gleisberg, the comptroller for the First Marine Amphibious Force, to the budget officers of the major subordinate commands) to honestly discuss the system of budget control and execution, as they actually interact with it, was only surpassed by the time and effort they expended providing background documentation for this thesis.

Their efforts, combined with the guidance and patience displayed by Professor McCaffery and Lieutenant Colonel Melchar as they attempted to educate a novice about the realities of budgeting, helped to make this thesis a meaningful experience and a true learning tool.

I. INTRODUCTION

A. GENERAL

The United States Marine Corps is an integral part of the Department of the Navy, and as such, one of four coequal armed services within the Department of Defense.[1] As a coequal service, it participates in planning to develop forces in support of statutory roles, missions and tasks that support the achievement of those military objectives identified as necessary in the pursuit of national security.[2] This planning, while essential to the overall fabric of national security envisioned by the President and the Department of Defense, is of no use if it cannot be implemented and carried out in an efficient and effective manner on the execution level. To control implementation and ensure goal congruence on the part of local commanders, the Marine Corps exercises budget control as it participates in the Planning, Programming, and Budgeting System (PPBS) currently in effect in the Department of Defense.

Historically the Marine Corps (and the Department of Defense) has been very good at the planning, programming and budget formulation phases of PPBS, but weak in the area of budget control and effective execution.[3] With

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1 Department of the Navy, Headquarters, United States Marine Corps, <u>The Marine Corps Manual</u>, 11 January, 1984, pp. 1-3, 1-4.

2 Department of the Navy, United States Marine Corps, Headquarters Order P3121.2E <u>Marine Corps Planning and Programming Manual</u>, 5 March, 1984, p. 2-6.

3 Robert W. Helm, Assistant Secretary of Defense (Comptroller), "Memorandum for Assistant Secretaries of the Military Departments (FM)," Washington D.C. dated 9 Nov. 1984.

a national budget deficit projected to be in excess of 200 billion dollars, Congress has taken steps (in the form of the Gramm-Rudman-Hollings Act) that could have an adverse impact on future Department of Defense (DOD) appropriations. Considering the limited resources traditionally at its disposal, and its dependence on DOD appropriations, it is likely that the austere atmosphere created by the Federal deficit and the implementation of the Gramm-Rudman-Hollings Act will have a severe impact on Marine Corps future funding levels. Accordingly, budget control and effective execution could determine the future of the Marine Corps as it strives to achieve maximum operational potential in a climate of constrained resources. This study is intended to examine budget control and its effectiveness in the Fleet Marine Force.

B. BACKGROUND

Often defined as a plan that expresses, in financial terms, a means of accomplishing an organization's objectives for a specified period of time, the budget is an instrument of planning, decision making, and management control that establishes priorities for a scarce resource - money.[4] In as much as a budget can be considered to be a planning and control tool that is created out of past actions (historical data) to project for the future, the concept of budget control and execution is constantly evolving, reflecting the budgeting environment in which it is developed.[5] Accordingly, the development of budget control and execution, as applied in the Marine Corps,

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4 Department of the Navy, United States Navy, <u>NAVCOMPINST 7102.22</u>, 27 April, 1983. p. 1-1.

5 Department of the Navy, Headquarters United States Marine Corps, <u>Financial Guidebook for Commanders NAVMC 2664</u>, 30 June, 1976, p. 11.

requires a basic knowledge of the background of budgeting in the Marine Corps.

As one of two separate military services comprising the Department of the Navy (DON)(a military department of the Department of Defense), the Marine Corps is influenced not only by budgeting developments in the Department of Defense, but also by the requirements of its sister service, the Navy. Accordingly, budgeting in the Marine Corps has been shaped by the evolution of budgeting in the Department of Defense and driven by the reporting requirements of the Department of the Navy.[6] The system currently in use has evolved from the changes that occurred in the budgeting process in DOD that began in 1961. At that time, Secretary of Defense Robert McNamara initiated a programming system in the Department of Defense that became known as the Planning-Programming-Budgeting System (PPBS).[7] Adopted in 1965 by President Johnson for use by all executive agencies of the Federal Government, it was later abandoned by the other executive agencies, but maintained in DOD.[8]

Simply put, the Planning, Programming and Budgeting System is a decision making process for allocating defense resources with primary focus on objectives, purposes, and the long-term alternative means for achieving them. Taking almost two years to complete, it is a process, that through programming, unites planning and budgeting to form a procedure for

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6 Department of the Navy, United States Navy, Navy Comptroller Manual, Vol. 7, pp. 2-31 thru 33.

7 Department of the Navy, Naval Postgraduate School, Practical Comptrollership, fourth ed., 1983, p. A-9.

8 Robert N. Anthony and David W. Young, Management Control in Nonprofit Organizations, Richard D. Irwin, Illinois, 1984, p. 297.

the equitable distribution of scarce resources over time among competing programs.[9] Unlike the line item approach, which creates the budget in terms of input with no clear relationship to output, the Planning-Programming-Budgeting System, by relating budget inputs to force outputs and fully costing programs five years into future, provides information for making decisions that are eventually reflected in the budget.[10] It requires budgeting in context to the Department of Defense's long range goals and objectives, in terms of program output rather than appropriation or dollar input, and in a form that must be converted into appropriation structure prior to review by the Congressional Appropriations Committees[11].

In 1977, the PPB system in the Marine Corps was altered when President Jimmy Carter adopted a Zero Based Budgeting (ZBB) process for the Executive Branch of the Federal Government. Not a new concept, Zero Based Budgeting had been around for awhile and had been in use in the private sector and at the local government (sub-national) level. At the time of his election, it was in place in President Carter's home state of Georgia (where he had adopted it while serving as Governor).[12] The adoption of Zero Based Budgeting for use by the Executive Agencies of the Federal Government was quickly followed by two documents, one from the Office of Management and Budget (OMB), providing broad guidance concerning the use of ZBB for the

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9 "Practical Comptrollership" fourth ed., 1983, p. A-9.

10 Financial Guidebook for Commanders NAVMC 2664, 30 June 1976, p.12.

11 William D. Johnson, "A Study of Budget Formulation in the Fleet Marine Force," Thesis, Naval Postgraduate School, Monterey Ca., 1980, p. 12.

12 Colonel J. A. Johnson, Assistant Chief of Staff, Comptroller, Fleet Marine Force, U. S. Pacific Fleet, Introduction paper presented on 13 September, 1977, p.1.

preparation of the FY79 budget, and one from the Secretary of Defense, Harold Brown, concerning the implementation of ZBB in DOD. It was the second of these documents that preserved PPBS as a viable budgeting process in DOD and the Marine Corps. By declaring that Zero Based Budgeting was to be implemented in conjunction with the existing system, Brown created a system where PPBS (with minor modifications) would serve as a data base for effective implimentation of ZBB.[13]

The basic tenets of Zero Based Budgeting, as they developed in the Marine Corps, were a "bottoms up approach" that required that fund administrators at the lowest financial level begin each fiscal year from a hypothetical zero funding base, and that all the resource requirements at each budget level be analyzed and justified from the zero base and not just increases to an ongoing decision unit that is assumed to be justified. The basic building blocks of ZBB were the decision unit and the varying levels of effort.

ZBB required the development of a "minimum" level of funding (budget level), and the development of "incremental levels" that added funds to the established minimum level to bring the decision unit to the desired level of activity or operation. These incremental levels were numbered sequentially, with numbers one and two denoting levels of funding that would bring the decision unit up to the current level of activity. Numbers

[13] Robert W. Downey, "Zero-Based Budget - recent Guidance from the Office of Management and Budget," Financial Management Newsletter, V. II, No. 2, May 1977, p. 8.

three through five denoted new initiatives and requirements for the decision unit. All decision units were limited to five incremental levels.[14]

Following the end of the Carter administration in 1981, the budgeting process in the Department of Defense, overburdened by the mandatory implementation of Zero Based Budgeting and the corresponding paper work, was ordered reviewed and several sweeping changes were instituted.[15] Having fallen victim to one of its most widely advertised pitfalls (excessive paperwork), the failure of ZBB was an indictment of its implementation, not the underlying concepts. Accordingly, in the Department of Defense and the Marine Corps, many of its positive concepts have been incorporated into the revised PPBS structure currently in use.[16] Following the guidance of the Secretary of Defense, the Honorable Casper Weinburger, and under the direction of Deputy Secretary Carlucci, a revised Planning, Programming and Budgeting System went into effect in 1980.[17]

The current DOD Planning, Programming, and Budgeting System establishes management procedures to ensure that the national resources supplied for defense are allocated to provide the best possible counter for any threat to national security.[18] Essentially a series of exchanges between the Secretary of Defense, the military departments, and the Office

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14 United States Marine Corps Order P7100.8H, Field Budget Guidance Manual, 23 March 1981, p. 6-5.

15 Clyde O. Glaister, Deputy Assistant Secretary OSD(C) Program/Budget "What's Happening to PPBS," Armed Forces Comptroller, Fall, 1981, p.5.

16 Department of the Navy, United States Marine Corps, Marine Corps Order P7100.8J, Field Budget Guidance Manual, 6 December, 1985, p. 6-3.

17 "What's Happening to PPBS?," p. 4.

18 Marine Corps Planning and Programming Manual, p. 2-3.

of the Joint Chiefs of Staff (OJCS) that results in the Five Year Defense Plan (FYDP), the Planning and Programming portion of the PPBS begins with the submission of the Joint Strategic Planning Document (JSPD). It contains advice of the Joint Chiefs of Staff on strategy and force structure requirements and recommendations as to the forthcoming Defense Guidance (DG). Sixty days following the issuance of the JSPD, the Secretary of Defense issues the draft DG for DOD component comments. Following component input, and review by the Defense Resources Board (DRB), the final DG is published. It is the basis for force planning and programming and it provides fiscal guidance for the development of Program Objective Memorandums by the various DOD components.

Following publication of final DG and concurrent with POM development by the various DOD components, the OJCS develops the Joint Strategic Planning Document Supporting Analysis (JSPDSA I), Strategy and Force Planning Guidance. It provides guidance, enabling the commanders of unified and specified commands and the military services to develop their input into the JSPDSA II, Analysis and Force Requirements. Following the development of the JSPDSA II, and within thirty days of the the publication of the POM, the OJCS reviews the capabilities, risks, and balance of the aggregate force it presents. They submit the Joint Program Assessment Memorandum (JPAM) stating their views on the POM. This is followed by a review of the various DOD POMs by the Office of the Secretary of Defense (OSD). During this review, as a means of reviewing and adjusting the defense program, major issues are compiled into issue books. They are circulated for military department and JCS comments, presented to the DRB

for discussion, and finally submitted to the Secretary of Defense for decision. Following his decisions on the issues contained in the Issue Books, the Secretary of Defense issues Program Decision Memoranda (PDM's), providing final decisions on the various DOD POMs and presenting guidance on the preparation of military service budgets. At this point, the Budgeting portion of the PPBS begins and the budget estimates of the Marine Corps and the Navy are formulated, combined and reviewed by the Comptroller of the Navy, and submitted to OSD for review. Following the submission of the budget estimates, OSD and the Office of Management and Budget (OMB) jointly review them and issue Program Budget Decisions (PBD's) addressing the allocation of resources within each service's budget estimate. Those PBD's considered adverse to an individual military service's programs are subject to reclama, by the individual military departments, to the Secretary of Defense. Significant differences, addressed as Major Budget Issues (MBI's), are presented to the DRB for consideration and decision by the Secretary of Defense.[19] Following the resolution of these issues, a final DOD budget is prepared and presented to the President for inclusion in the budget he submits to congress in January. Submission of the DOD budget to the President completes the PPBS cycle. Figure 1-1 depicts the flow of major documents in an annual PPBS cycle.

Marine Corps participation within the PPB system takes the form of participation in the development of documents comprising the Joint Strategic Planning System, followed by the development of the Marine Corps long-range plan, mid-range plan, and short range plans.

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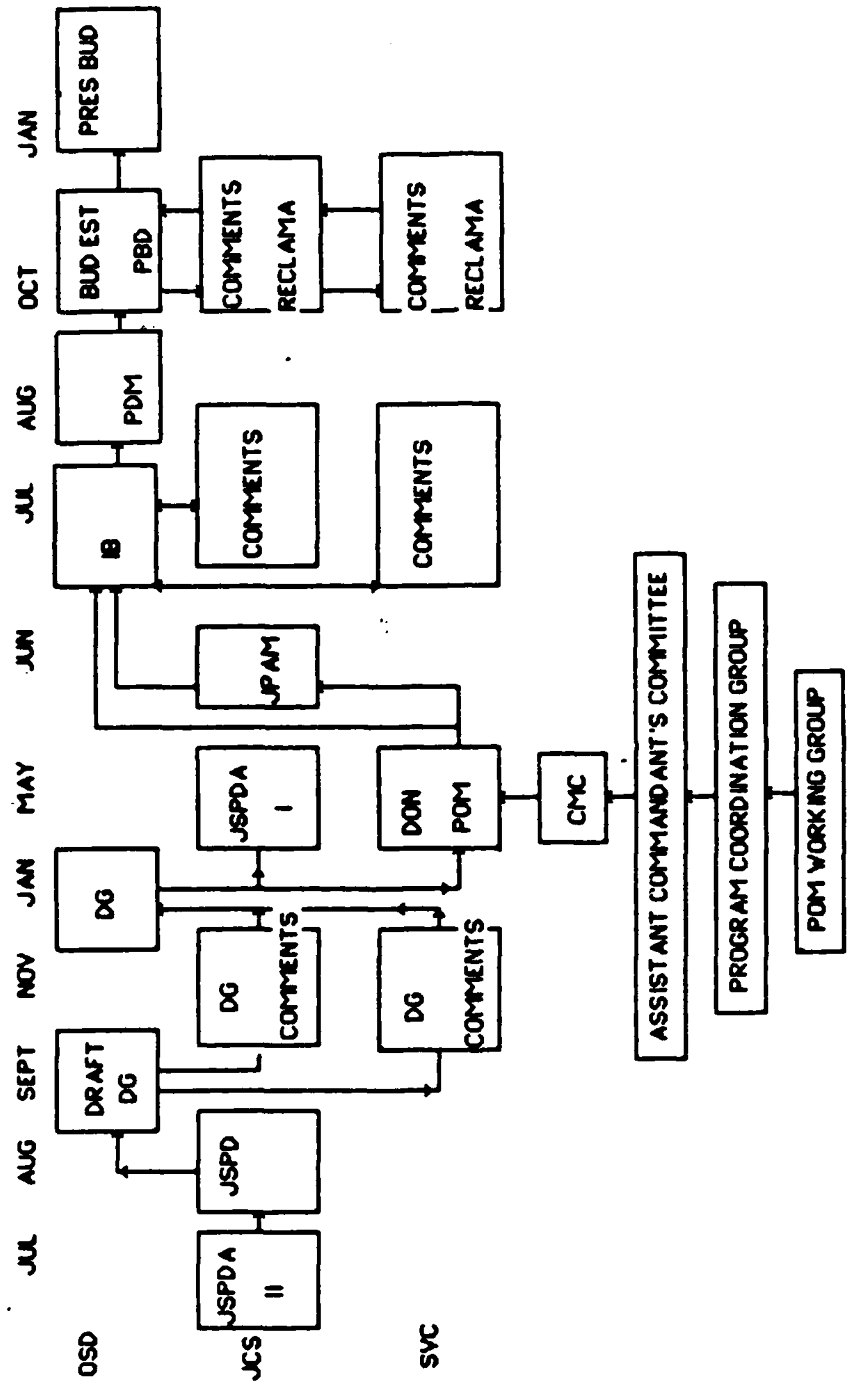
19 Marine Corps Planning and Programming Manual, pp. 2-3 thru 2-5.

Figure I-1



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BUD EST PBD
COMMENTS RECLAMA
COMMENTS RECLAMA
PRES BUD
ASSISTANT COMMANDANT'S COMMITTEE
PROGRAM COORDINATION GROUP
POM WORKING GROUP

The Marine Corps long-range plan (MLRP) serves as a basis for the progressive and evolutionary development of Marine Corps structure ten to twenty years in the future. Setting forth broad concepts, supporting concepts and planning objectives, it addresses the transition between approved mid-range capabilities provided by advancing technology and future strategy considerations. Dealing with qualitative goals rather than resource or structure requirements, it is subject to annual review, with revision every five years. The Marine Corps mid-range objectives plan (MMROP) is targeted to years one through ten (following the year it is published). Designed to provide the basis for the Marine Corps input into the JSPD and the JSPDSA II, it develops force level requirements and provides the Marine Corps planning level necessary to accomplish the national military strategy within established risk criteria by stating the capabilities required for the Marine Corps to perform its mission in the mid-range period. The Marine Corps capabilities Plan (MCP) is designed to supplement joint documents and provide information for the employment of Marine Air/Ground Task Forces (MAGTFs) under different wartime conditions. It is the Marine Corps short-range planning document (covering one fiscal year). Divided into two parts, it provides force levels available to unified commanders for contingency planning, and it highlights Marine Corps organization for combat, MAGTF employment concepts, planning factors, wartime force and current force manning levels, existing shortfalls, and conceptual plans for the employment of the Marine Corps reserve. The final document in the planning phase is the Marine Corps mobilization Management plan (MPLAN). It sets forth policies for

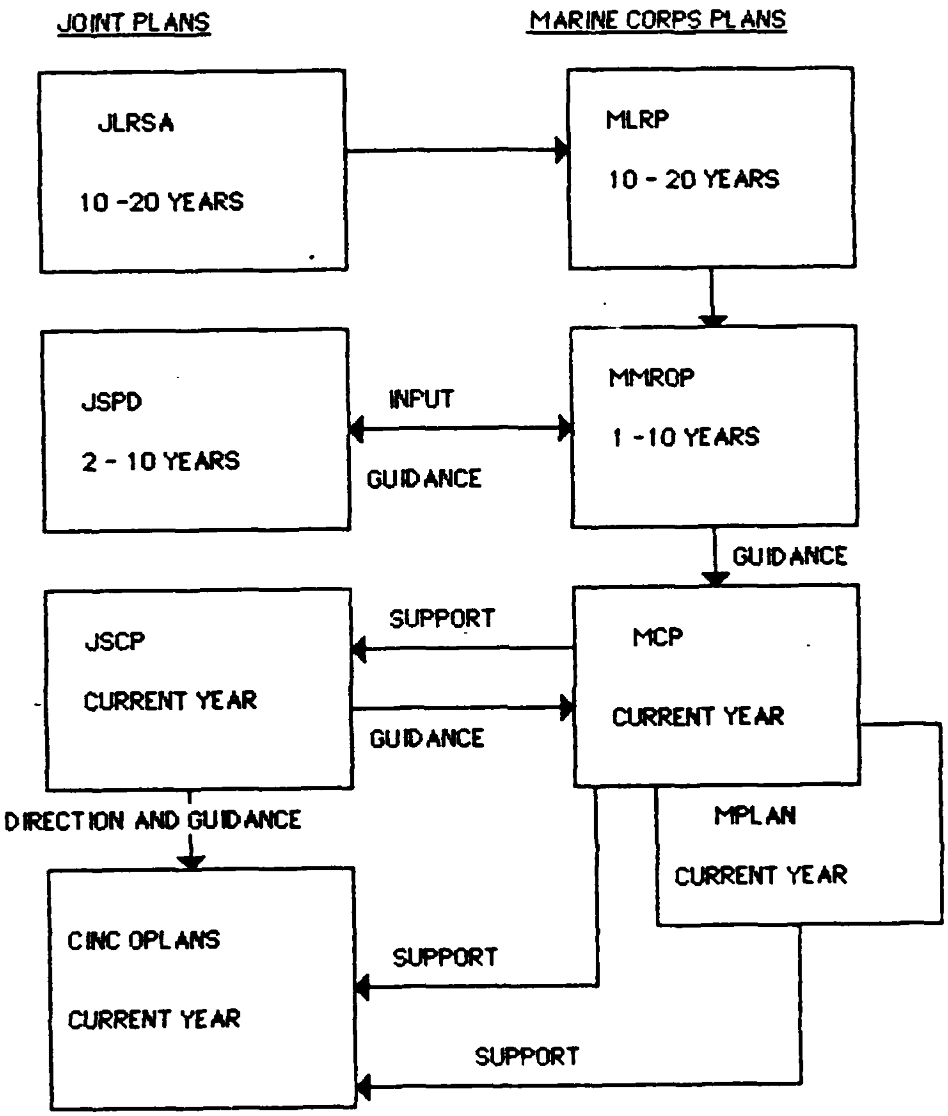
mobilization of the Marine Corps, establishes guidance for the maintenance of specific levels of mobilization, and combines all mobilization related data and information into a single source document.[20] Figure 1-2 depicts the relationship of these documents with the joint planning documents discussed earlier.

The Planning stage of the PPB system ends with the issuance, by the Secretary of Defense, of the Defense Guidance. Containing guidance and fiscal constraints based on the plans developed during the planning stage, it is the catalyst that begins the programming phase of the PPBS. The basic purpose of programming is to translate the approved concepts and capability objectives developed during the planning stage into a definitive program that is expressed in the optimum time-phased allocation of funds, material, and personnel. The end result is the Department of Defense's Five Year Defense Plan (FYDP). Input into the FYDP is accomplished through the development of the Program Objective Memorandum (POM). It is the document developed annually by each military department and defense agency that recommends and describes its resource and program objectives established to meet the objectives developed during the planning stage of the PPBS. Following defense guidance in the development of the POM, estimates of the cost of attaining force objectives for financial and manpower resources five years into the future are systematically developed concurrently with a projection of force requirements for an additional three years.[21] As a separate service within the Department of the Navy, the Marine

20 Marine Corps Planning and Programming Manual, pp. 3-4 thru 3-5.

21 Marine Corps Planning and Programming Manual, p. 4-3.

Figure I-2
Relationship between Marine corps' and Joint planning documents



Corps participates in the programming process through the Department of the Navy's POM. Each year a total Marine Corps Program is developed that addresses forces and resources in program element detail for five years, beginning with the first program year. It represents a logical step towards the unconstrained force projected in the JSPD and the Marine Corps Mid-Range Objectives Plan, while accurately portraying a definitive force attainable within current fiscal constraints.[22] It is the Marine Corps' proposed update to the FYDP.

Following the submission of the POM, the budgeting phase of the PPBS in the Marine Corps begins. Once the Office of Management and Budget sets the date for submission of the budget in the fall, and the Office of the Secretary of Defense sets the date for the submission of the POM in the spring, the date for the budget submission to the Navy Comptroller is set.[23] When the Marine Corps budget call goes out (predicated on the time requirements of the navy, as the Marine Corps submits their budget as a part of the Navy budget) ceilings are provided to subordinate commanders at the operating budget level (OPBUD) based on fiscal constraints derived during the POM process. They in turn go out with their budget call to their major subordinate commands (MSC's) with guidance in the form of ceilings and deadlines (usually based on historical data and the guidance they have received from higher headquarters). Once the budget call is received at the MSC level, they, in turn, issue their guidance to their cost centers (CC), in the form of a budget call bounded by ceilings (again usually based on

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22 Marine Corps planning and Programming Manual, p. 4-5.

23 "Navy Comptroller Instruction 7102.2", 27 April, 1983, p. 1-10.

historical information and previous guidance). The cost centers turn in Planning Estimates (PE) that are consolidated at the MSC level into a single planning estimate that is submitted to the OPBUD holders level (FMF). There the budgets are examined, consolidated, and forwarded to CMC as the budget estimate for that command.

C. MARINE CORPS BUDGET CONTROL PHILOSOPHY

Just as PPBS has evolved, budget controls have developed to try to ensure goal congruence, plan compliance and effective execution at the Funding Authority level. As the budgeting system evolved to make it more responsive (i.e. provide more flexible control of the agencies executing them) on the DOD level, a concept of budgeting control and execution developed in the Marine Corps that combines the philosophy of the Marine Corps with the reality of operations in a fiscally constrained environment. In brief, the Marine Corps views the dollar much as it would a round of ammunition or a box of rations. It is nothing more than an asset to be utilized by the commander in achieving maximum operational potential.[24] As such, the commander is responsible for the administration and control of all funds made available to him, whether through allotment, operating budget, or planning estimate, just as he is held responsible for the other elements of his command. This responsibility cannot be delegated and commanders are held personally responsible for any act, whether of their own volition or that of a subordinate, which causes an overcommitment, overobligation, or overexpenditure of an authorization of funds. In other words, in the Marine Corps, the management of finances and command are

[24] Marine Corps Manual, p. 1-25.

inseparable. One is inherent in the other.[25] Accordingly, with the responsibility for the funds, comes the responsibility for the formulation of operating budgets. Based upon intimate knowledge of their command, their mission, and the guidance received from higher headquarters, commanders are expected to formulate their budgets, and once finalized, live with them. These operating budgets are designed to provide a plan against which performance can be measured, variances analyzed, and adjustments made to permit the measurement of performance against the commander's plan.

D. BUDGET CONTROL IN THE FMF, AN OVERVIEW

This basic relationship between the responsibility of command and the responsibility of the commander for his budget is a direct reflection of the control system that is currently in use in the FMF. Superimposed on the existing chain of command, (i.e. each commander is responsible to the next higher commander in the chain) budget control, and the responsibility that goes with it, follows command lines.[26] Figure I-3, depicting the organization of the FMF for the flow of funds, shows this relationship. Each commander receives funds from his next higher headquarters in the chain of command. This matching of responsibility structure with programming structure simplifies control procedure and enhances goal congruence.[27]

While the mission and organization of the Marine Corps (and the FMF) may be different on the surface from a civilian company, the need for a formal control system is just as strong as in any other large organization.

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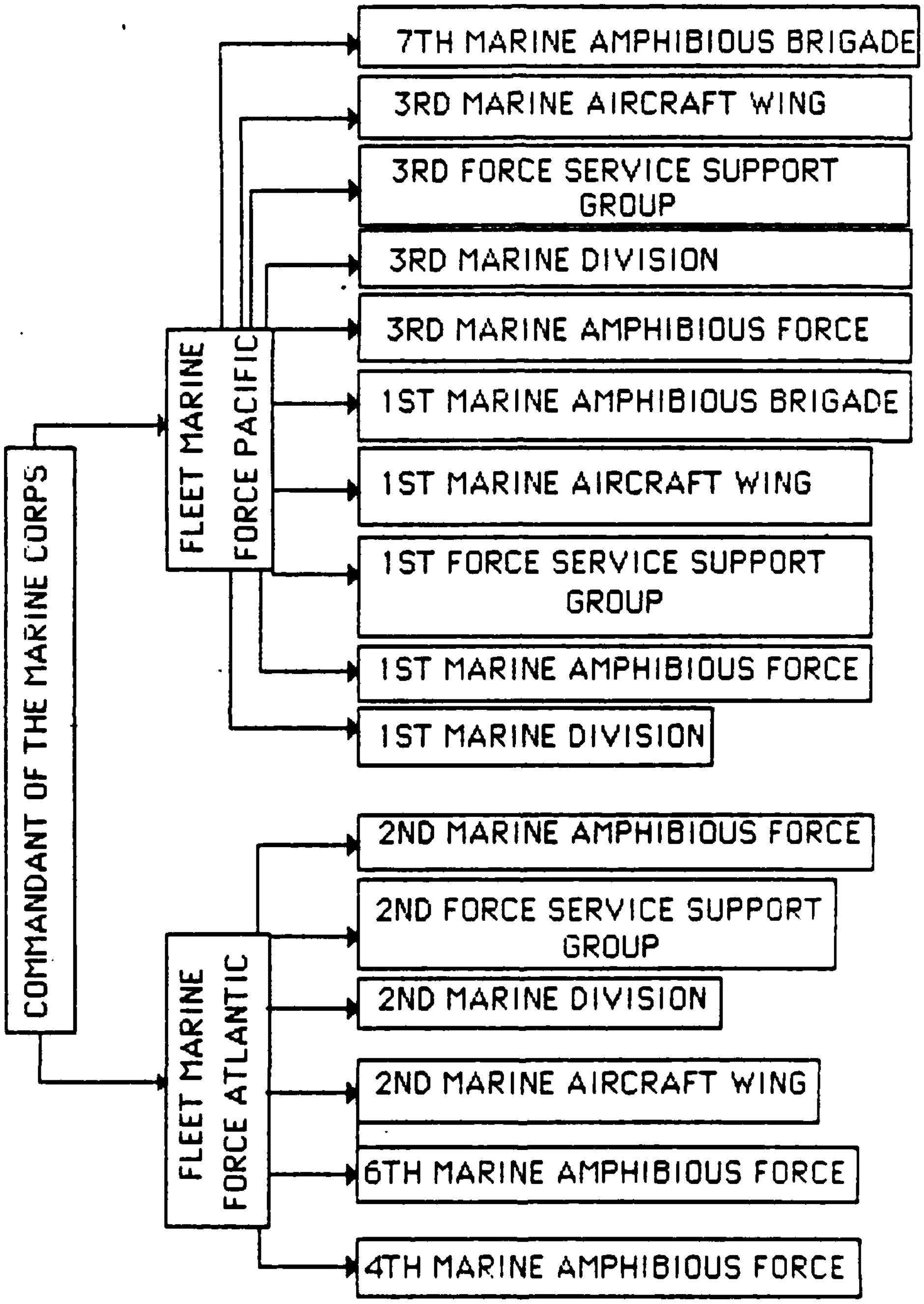
[25] The Marine Corps Manual, p. I-25.

[26] Department of the Navy, Navy Comptroller Manual, Vol. 7, p. 2-30.

[27] Management Control in Nonprofit Organizations, p. 235.

Figure I-3



FLOW OF FUNDS IN THE FLEET MARINE FORCE

Accordingly, as in other large organizations, there are four parts to the system; programming, budget formulation, operating and measurement, and reporting and evaluation.[28]

Budget control in the FMF begins with the Programming portion of the PPBS. Following the receipt of the Defense Guidance by the Commandant of the Marine Corps (CMC), the call for the Marine Corps POM goes out. The Commanding Generals, Fleet Marine Force Pacific (CG FMFPac) and Fleet Marine Force Atlantic (CG FMFLant) receive from CMC fiscally constrained guidance concerning the development of their POM. They in turn, following the chain of command depicted in figure 1-3, issue guidelines and fiscal constraints that requires each of their MSC's to develop a POM. These POMs, when submitted, are reviewed and consolidated at the FMF level, to form the basis of the POMs submitted by the Fleet Marine Force to CMC. Completion of the POM is usually required by the end of December.[29]
With the creation and submission of the POM, (within the fiscal guidelines established by higher headquarters) the basis for the creation of the FMF's budget has been established; for it is the parameters established by their individual POM's, as approved, that determines the definitive budget guidance within which they create their budget estimates.[30] The creation of these Budget estimates begins the budget formulation step of the budget control process used in the FMF.

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28 Management Control in NonProfit Organizations, p. 10.

29 Telephone interview with Major J. Cargill, Budget Officer, FMFPac (October 11, 1985) and Captain Averitt, Budget Officer, FMFLant (September 27, 1985).

30 Marine Corps Planning and Programming Manual, p. 2-3.

Due primarily to the influence of ZBB, the Marine Corps' budget formulation process requires that each management level analyze and review all financial resource requirements to justify and verify the existence and priority of all ongoing and new programs. Narrative emphasis is placed, in the manual submission, on deficiencies and program changes, with special attention given to program increases. One of the key aspects has become the classification of a fixed resource among competing requirements by the use of decision units. This allows the Marine Corps to get a "total picture" of financial resource requirements from the unfunded deficiencies submitted by each field activity.[31] Within these parameters, and bound by the information submitted in the POM as reflected by budget guidance received from CMC, the Commanding Generals, FMFLant and FMFPac, formulate their budget estimates based on ceilings received from CMC. As in the POM formulation, FMFLant and FMFPac issue their own budget calls and guidance to their MSC's. Within the guidance provided by higher headquarters, the MSC's issue their own budget calls, with guidance, to their cost centers. Within these limits, the cost centers develop and submit their planning estimates to the MSC's. They in turn approve, disapprove, or modify these estimates to reflect their evaluation of programs, workloads and priorities, prior to consolidating them to form their command planning estimates ,which are submitted to the Commanding Generals FMFLant and PAC (respectively).[32] At the FMF level, these estimates are again reviewed, this time for conformance with the priorities of the FMF level commander.

31 Field Budget Guidance Manual, pp. 6-3, 6-4.

32 Navy Comptroller Manual, Vol. 7, p. 2-27.

After they are approved, they are consolidated and submitted to CMC as the respective budget estimates of FMFLant and PAC.[33]

At this point, it should be noted that in the Marine Corps has two budgets: the Legislative budget, and the Management budget. The first, the legislative budget, is essentially a request for funds. It is, in effect, the budget estimate that is submitted to the Department of Defense and ultimately, congress. The second, the management budget, is the budget that is prepared following the decision of Congress on the budget estimate.[34] The management budget not only reflects the amount of money made available by congress, it may also reflect the discretion of the funding authority as to the application of his funds. Therefore, the amount of funds made available by higher headquarters may or may not reflect the original budget requested.

It is this second budget, the management budget, that is the focus of the third step in the budget control process. During the operation and measurement phase, control is affected through the use of quarterly obligation ceilings and floors (Floors are usually imposed on maintenance by congress), quarterly obligation rates, and the Marine Air/Ground Financial Accounting and Reporting System (MAGFARS). Following the approval of the President's budget, financial authority is provided to the Department of the Navy by OSD for the Operations and Maintenance, Marine Corps (O&M, MC), account. The Controller of the Navy passes responsibility for the Operations and Maintenance, Marine Corps, appropriation to the Commandant of the

33 Navy Comptroller Manual, Vol. 7, p. 3-51.
34 Management Control in Nonprofit Organizations, p. 358.

Marine Corps via a fund allocation. This allocation provides obligational authority, by quarter, in terms of budget activity.[35] From this allocation, CMC issues O&M, MC operating budget authority to the FMF, also by quarter.[36]

Following receipt of the Operations Budget from CMC, the authorization is subdivided on the FMF level and issued to their MSC's as a planning estimate broken down into quarterly authorizations. These authorizations are further subdivided into budget authorities and issued by the MSC's to their cost centers for obligation. It is at this level that the majority of the execution of the budget in the FMF takes place.

In an attempt to ensure that goal congruence and effective execution occurs at the cost center level, there are several controls in effect at all levels. The budget authorization, as received at all levels, is bound by a quarterly ceiling that is not to be exceeded without approval from the issuing authority. On the cost center and MSC level, there is no statutory responsibility attached to execution of the budget, other than that inherent in the relationship between subordinate and superior that comes with the responsibility of command.[37] On the FMF level, in addition to the responsibility inherent in command relationships, as the recipient of an operating budget, the Commanding General has the statutory responsibility, as established in Sec. 1517 of the Revised Statutes, as amended (31 U.S.

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35 Navy Comptroller Manual, Vol. 7, p. 4-66.

36 Department of the Navy, United States Marine Corps, Marine Corps Order. P 7300.8D, Marine Corps Financial Accounting Manual, 19 Jan. 1981, p. 2-5.

37 Marine Corps Financial Accounting Manual, p. 1-7.

Code 665) not to cause an obligation or expenditure in excess of the apportionment or reapportionment. The commander is further bound by Sec.1301 of the Revised Statutes (31 U. S. Code 628) to ensure that the monies appropriated be used only for the programs and purposes for which the appropriation is made.[38]

In addition to the budget control imposed by the use of ceilings and floors in the quarterly break down of authorizations, mandatory quarterly obligation rates are imposed as a means of measuring execution efficiency. As the authorization for each quarter is received, a prorated obligation rate of 99 percent is usually required. As an example, at the end of the second quarter, a MSC in the FMF (or a cost center for that matter) would be expected to have obligated 99 percent of 50 percent of the total authorization for the year. This required obligation rate is checked through the use of Marine Air/Ground Financial Accounting and Reporting System (MAGFARS). An automated, nonaccrual, financial accounting and reporting system approved by the Government Accounting Office for use by the FMF, MAGFARS provides the commander with a series of accounting reports that enables the commander to follow the obligation of O&M funds as the unit executes its financial plan.[39] Consisting of requisitional authority or "soft" dollars (RA), that can only be obligated through the Sassy Management System (SMU), and operating budget (OPBUD) or "hard" dollars (PE), that can be used to purchase authorized material that is not available at the SMU, the FMF commander's operating budget is tracked by MAGFARS, by dollar type,

38 Navy Comptroller Manual, Vol. 7, p. 3-46.

39 Lieutenant Colonel W. H. Skierkowski, " How a FMF Commander Manages Money," Marine Corps Gazette, Vol. 63, No. 9, September 1979, p. 60.

through dual source input. Designed to reduce the amount of information needed to be input by financial personnel in the FMF, RA obligations are input into MAGFARS directly from the SMU, while OPBUD obligations are input by the operating unit.[40] Cost accounting reports are periodically produced by the system to provide the commander with historical data for budget formulation and a means of measuring the efficiency of his budget execution against his financial plan.[41]

MAGFARS, while providing the commander with a means of controlling his own budget, also fulfills part of the reporting and evaluation requirement found in the the fourth and final step of the budget control process. As part of the periodic reports produced by the MAGFARS, the performance statement (NAVMC 10890) is produced and distributed on a monthly schedule to each MSC, their parent commands (FMFPac and LANT), and the Commandant of the Marine Corps. Providing the commander and the Commandant of the Marine Corps with a report that reflects budget execution based on total obligations incurred compared to the approved command financial plan, the 10890 provides a means for the commander to check the budget execution of his subordinates for trends that may require realignment of funds.[42]

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[40] Department of the Navy, United States Marine Corps, Marine Air/Ground Financial Accounting and Reporting System, 17 Jan. 1978, with message. updates, p. 2-3.

[41] "How a FMF Commander Manages Money," pp. 59 - 60.

[42] Department of the Navy, headquarters, United States Marine Corps, Marine Corps Order P7300.10B Ch. 2, Mechanized Financial Procedures for Selected Marine Corps Posts and Stations, 26 May, 1978, p.5-49.

This evaluation of the performance statement report on a monthly basis is combined with a midyear review (conducted during March - May) of the operating budget by all OPBUD holders. Beginning at subordinate levels, this review is conducted to evaluate execution performance. Obligations to date and projected requirements for the rest of the year are reviewed, with particular emphasis toward providing resources for previously unfunded requirements caused by unforseen program or price changes.[43] In short, midyear review is an in depth evaluation that compliments the continuous reporting and evaluation that occurs during the rest of the year.

As can be seen by this overview, the budget control process in the FMF consists of an integrated, coordinated system. Built around a financial structure, the individual steps of the process occur in a regular cycle, constituting a closed loop. The programming step creates the basis for the budget formulation step, which in turn provides control structure for the operating and measurement step, which provides data for the final step, reporting and evaluation.

E. SCOPE AND OBJECTIVES

In the present environment of constrained fiscal resources and a looming national budget deficit, budget control and effective execution offers a means by which the Marine Corps can achieve its planning goals without sacrificing operational readiness. Accordingly, it is the objective of this thesis to examine, evaluate, and make supportable recommendations to improve budget control and execution in the FMF, while providing a useful guide to the budget control process in the FMF.

[43] Navy Comptroller Manual, Vol. 7, p 3-73.

The scope of this study includes budget control and execution in the FMF as specifically executed in the following units:

1. The First, Second, and Third Marine Divisions
2. The First, Second and Third Marine Aircraft Wings
3. The First, Second, and Third Force Service Support Groups
4. The First Marine Brigade
5. The Seventh Marine Amphibious Brigrade

Included in this study will be the parent units of the above (FMFLant and FMFPac), in as much as they play an integral part in the budget control and execution of their subordinate units. The budget control and execution process addressed by this study will include the guidance issued by CMC and all subordinate commanders down to the MSC level. Budget control and execution at the cost center level is not included.

F. METHODOLOGY

During the process of this thesis, Navy and Marine Corps directives applicable to budget control and execution in the FMF were reviewed. Additionally, outside professional literature relating to budget control and execution was surveyed, and where found applicable, applied in this thesis.

Combined with the literature search, an in depth telephone or personal interview was conducted with Colonel Updike, head of the Budget Branch, Headquarters, Marine Corps, Colonel Stringer, the Comptroller for FMFPac, the Budget Officers for the commands listed above, and several Marine Corps officers who in the past have been Budget Officers for a major command or major subordinate command in the FMF. During the interviews, due to the

nature of the study, the officers being interviewed were assured that any input they chose to provide concerning their opinions or evaluations of budget control and execution in their units would remain confidential. Accordingly, where necessary, opinions and evaluations are footnoted as "Conversation with a Budget Officer in the FMF", and a general date is given.

In addition to the above, the FY 85 budget (with all guidance received and issued concerning the budget) and the FY 85 midyear review (with all guidance received and issued concerning the review) for each of the listed units was analyzed to determine the effectiveness of each units budget control and execution.

In combination with the FY 85 budgets, a performance statement (NAVMC 10890) for each month of FY 85 was compared with the FY 85 budgets of each unit. A statistical analysis was done, by decision unit and total O&M, MC authorization, to determine the correlation of the unit's requested budget, its actual command plan, and actual obligations. A determination as to effectiveness of budget execution was made for each unit and for FMFLant and FMFPac as a whole, based on the amount of variation between the original command financial plan and actual obligations. A variance of plus or minus ten percent was used as a guide.

G. ORGANIZATION

Chapter II discusses in detail the budget control process in FMFLant. FMFLant is examined, by major subordinate command and as a whole, to determine how they affect budget control and execution.

Chapter III discusses in detail the budget control process in FMFPac. FMFPac is examined, by geographical area and major subordinate commands, to determine the effectiveness of their budget control and execution.

Chapter IV contains conclusions and recommendations drawn from, and supported by, the information presented in the earlier chapters.

II. BUDGET CONTROL AND EXECUTION IN FMFLANT

A. INTRODUCTION

This chapter discusses budget control and execution as it is actually practiced in FMFLant. The fiscal control and budget execution policies of designated major commands in FMFLant, and their implementation , are examined, by major command. The Fiscal Year 1985 budget submissions of each command, with the guidance received and issued, was reviewed and the budget officer of each subordinate unit of FMFLant listed in Chapter I was interviewed. The information presented in this chapter is based on these documents and interviews.

B. FLEET MARINE FORCE ATLANTIC (FMFLant)

1. Structure

To facilitate fiscal control, FMFLant is structured into a headquarters element, five subordinate commands (Second Marine Division, Second Marine Aircraft Wing, Second Force Service Support Group, II Marine Amphibious Force, and Camp Elmore), and numerous cost centers. As indicated in chapter I, designation as a subordinate command (SC), and the responsibility that goes with it, follows the operational chain of command. Accordingly, the five subordinate commands designated for fiscal control are the same commands that exercise command responsibility. A cost center (CC), on the other hand, is the smallest entity within the FMFLant OPBUD that has direct financial management responsibility. Within FMFLant, they are broken down into two categories, the Planning Estimate Holder (those cost centers

within Headquarters FMFLant, the Headquarters of the Second Marine Division, the Second Marine Aircraft Wing, the Second Force Service Support Group, and Camp Elmore) and the Target Limitation Holders (Those cost centers below the subordinate command level).[44] For the purposes of this thesis, the only commands studied in FMFLant are the Second Marine Division, the Second Marine Aircraft Wing, the Second Force Service Support Group, and their designated cost centers.

2. <u>Budget Control and Execution</u>.

Budget control and execution within FMFLant is an intergrated process that follows the four basic steps outlined in chapter I, with modifications occurring as the process is applied at the Headquarters, subordinate command, and cost center levels.

a. Headquarters, Fleet Marine Force Atlantic.

(1). <u>The Program Objective Memorandum (POM)</u>. The control process at the FMFLant headquarters level begins with the POM process. During December of the Current Year (CY), guidance is received from the Commandant of the Marine Corps (CMC) requesting input into the POM. This guidance is characterized by 1) a fiscal ceiling that effectively limits the size of program input and 2) a deadline by which all input from FMFLant must be received by Headquarters Marine Corps. Due to the constraints imposed by the time of the year (Christmas/New Year holidays), the timing of the guidance (it is usually received around the 20th of December), and the deadline imposed by CMC (they usually require a reply by the second week in

[44] United States Marine Corps, Headquarters, Fleet Marine Force Atlantic, Force Order P7000.2G, "Standard Operating Procedures for Financial Management", 15 Feb., 1983, p. 1-7.

January), it is common for FMFLant to issue guidance to its subordinate commands prior to receipt of formal POM guidance from CMC. This guidance usually includes an individual ceiling for each subordinate command and a deadline for submission of their input to FMFLant. It is based on historical data (previous POM input) and the status of their current programs. Due to the scope of the POM, the information FMFLant is seeking deals only with changes in current programs, and any new programs that a unit feels are vital to its operational efficiency. Any deficiencies that are identified by a unit are prioritized, with the deficiency(s) and new programs the commander feels are most crucial, listed first.

After receipt, at the headquarters level, of their subordinate command's POM input , the FMFLant comptroller's office compiles the information into a consolidated POM. It is then reviewed by the POM Working Group to validate and set the priorities of the deficiencies (and their justifications) and examine any new programs that may have been suggested. In the event there is a question about a deficiency or its justification, the subordinate command that submitted the item is contacted directly by the decision unit sponsor (a member of the group) and it is resolved.

Following review by the POM Working Group, the POM is examined by the Chief of Staff's Executive Committee, where it is further reviewed and refined. Any unresolved questions concerning the priority of a deficiency or new program are addressed and recommendations are made. Once the POM leaves the executive committee, it is reviewed by the Chief of Staff. Following review, the POM is briefed to the Commanding General and

changes are made to bring it into conformance with the general's concept of operations, as they are projected for the next five years. Following the general's review, the POM input is formalized, a cover letter is put on it expressing the general's views, and it is returned to the Commanding General, via the Chief of Staff, for signature. After the general signs it, the document is forwarded to the Commandant of the Marine Corps as FMFLant's input into the Marine Corps' POM.[45]

(2). Budget Formulation. Following submission of the midyear review, FMFLant begins the budget formulation stage of the control process. In FMFLant, budgeting and operational planning are considered to be inseparable and the budget is required to support the commander's concept of operations. Although it is an annual plan, it is expected to contribute to the achievement of objectives and missions extending into the future. Accordingly, the budget formulation process for all budget submissions begins at the subordinate command level and progresses upwards to the Commanding General. At each echelon, lower unit's budgets are reviewed to ensure they accurately reflect planned operations for a particular fiscal year by identifying how, why, and with what. These plans, when they reach the Commanding General's level, should accurately reflect the relationship of a specific sum to each segment of a command's operational plans. These sums should be cumulative estimates of obligations to be incurred during the budget year and identified with the performance of specific missions. In short, the operating budget in FMFLant is a fiscal operations plan against

[45] Telephone interview with Captain B. A. Averitt, budget officer, FMFLant, on 26 February, 1986.

which performance can be measured, variances analyzed, and adjustments made to ensure the effective management of resources.[46]

At the headquarters level in FMFLant, the budget formulation process occurs in mid- March and continues through mid-April. CMC's annual budget guidance, Marine Corps Bulletin 7100, promulgates guidance and instructions for the preparation of the current budget. In addition, as with the POM and Midyear Review, FMFLant receives a budget ceiling and a deadline for input. Due to the time constraints imposed by CMC, FMFLant usually begins it budgeting process well before guidance is received from CMC.

Guidance from Headquarters, FMFLant, is issued to subordinate commands based on past performance (the POM is not used as a basis for the ceilings) and their deadline for submission to CMC (they try to give their subordinate commands at least two to three weeks to develop their budget submissions). Detailed guidance as to budget format and the required exhibits are contained in the FMFLant Standard Operating Procedures (SOP) for Financial Management and the annual Field budget Guidance Bulletin published by CMC. Prior to and during the budget formulation process, the Commanding General issues guidance concerning his budget priorities or areas of emphasis through the use of commanders conferences.

Following receipt of the budget input from their subordinate units, the information is compiled by the FMFLant comptroller and put into the proper format. It is then processed in much the same manner as the POM and midyear review. The POM Working Group reviews the input and any

46 "Standard Operating Procedures for Financial Management", 15 Feb., 1983, p. 2-5 through 2-7.

deficiencies (and the narrative justification for them) are examined, conflicts are resolved, and initial prioritization occurs (despite the use of the POM Working Group to review the budget, there is no relation between the POM and the budget -- They are considered two distinct, different processes and the budget submission is not compared to the POM). The budget is then reviewed by the Chief of Staff's Executive Committee, where the initial input and prioritization of deficiencies are reviewed (and possibly reordered) for goal congruence.

Following review by the committee, the budget is reviewed by the Chief of staff, who resolves any remaining conflicts over deficiencies and makes final changes in preparation for presenting the budget to the Commanding General. After review by the Chief of Staff, a budget brief is prepared and presented to the Commanding General by the comptroller. Following this brief, any changes requested by the Commanding General are made, a cover letter is prepared stating the general's concerns and concepts, and the budget package is forwarded for signature. Following signing, the entire package is forwarded to CMC as the budget for FMFLant.[47]

(3). Budget Execution. The first step in budget execution in FMFLant begins in September of each year with the preparation and submission of a phased monthly obligation plan by each subordinate commander. It reflects his estimate of how he plans to obligate his money, by quarter. This is followed by receipt of the Operating Budget (OPBUD) in late September of each year (in those years when a continuing resolution is in effect, the process is basically the same, with the necessary

47 Telephone interview with Captain B. A. Averitt, budget officer, FMFLant, on 26 February 1986.

adjustments made for the reduction in funds available). If the amount received is the same as the amount requested (this is not always the case, since the budget submitted is based on their best estimate of what would be needed to support planned operations, while the budget they receive is determined by the Marine Corps' Budget as authorized by congress), Funding Amendments (FA's) are issued to subordinate commands in the amounts and areas requested in their monthly phased obligation plan. If there is a variance between what was received at FMFLant and what was requested, the comptroller recommends an equitable adjustment to the Chief of Staff, and he makes the decision concerning the reductions necessary (when this is necessary, the reduction is usually done across the board with an equal reduction occurring in each FA).

In conjunction with the phased obligation plan, authority to obligate funds is issued by quarter and an obligation rate is stipulated. When the funding amendments are issued to subordinate commanders, they contain the total amount of the command's budget for the year, with a stipulation that they can only obligate a designated amount each quarter. In addition, they are required to maintain a monthly obligation rate with an allowable variance of four percent. This is monitored through the use of monthly reports generated by the Marine Air/Ground Financial Accounting and Reporting System. At the FMFLant Headquarters level, the performance statement (NAVMC 10890) is the primary report used. Prepared monthly, it presents a comparison between actual expenses year-to-date and annual budgeted expenses. Received by Headquarters, FMFLant, their subordinate commands, and CMC, this report is compared to the subordinate command's

phased obligation plan. If there is a variance of four percent or more, the budget officer contacts the command for justification of the variance. Following justification, the command's phased monthly obligation report and Funding Amendment are changed to reflect the variance (to the present, no subordinate command has had money taken because they exceeded the four percent obligation variance. In all cases quarterly obligation amounts have been adjusted to cover the variance).[48]

In addition to the quarterly obligation rate requirement and the use of the NAVMC 10890 to control budget execution in FMFLant, the Department of the Navy and Headquarters, United States Marine Corps (CMC), requires an annual midyear review of the current budget. Immediately following the submission of the POM in early January, units are tasked with examining their current budget to identify any unexpected deficiencies that have occurred. It is a chance for commanders to update the command plans they formulated prior to the beginning of the current fiscal year, and it provides an opportunity for them to request additional funds for those areas in which they are deficient. Guidance is issued, on an annual basis, by CMC, in the form of a Marine Corps' Bulletin in the 7100 series. However, this guidance is seldom timely.

As in the POM and budget formulation guidance, ceilings and deadlines lines for submission of the midyear review to higher headquarters are promulgated by CMC. Generally, due to the deadline for the submission of their input (the guidance for Fiscal Year 85 was received in the third week of February and FMFLant's input was due by 15 March), Headquarters

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48 Telephone interview with Captain B. A. Averitt, budget officer, FMFLant, on 26 February, 1986.

FMFLant is forced to put out guidance to its subordinate commands well before the official guidance is received. Their guidance is based on the current status of the FMFLant budget and an advance copy of the official guidance from CMC (if available). It may or may not contain an adjustment (revised ceiling) to current budget levels, depending on the current fiscal environment (during the Fiscal Year 86 midyear review, budget levels were reduced because of the impact of the Gramm- Rudman-Hollings Act) and the requirements of CMC.

Following the receipt of their subordinate command's midyear reviews, Headquarters, FMFLant, follows the same process they use for the POM. The information is collated and put into the proper format, reviewed by the POM Working Committee, the Executive Committee, and the Chief of Staff. The priority and validity of any deficiencies are determined and the midyear review is briefed to the Commanding General. A cover letter is prepared for the general's signature and, following signature, the entire package is forwarded to CMC as FMFLant's midyear review.

b. Subordinate Commands

As the requirements (controls) of higher headquarters filter down to the subordinate commands, the problems (and controls) are magnified. The budget controls that exist on this level are largely reactive in nature, as the command responds to the demands of Headquarters, FMFLant. As could be expected, budgeting and budget execution are controlled through the POM and budget formulation process, midyear Review, and the use of various internal and external reports available through the Marine Air/Ground Financial Accounting and Reporting System.

(1). Second Marine Division

(a) Program Objective Memorandum (POM). POM formulation in the Second Marine Division is done entirely at the Division level. The POM deals only with major programs and program changes and, as such, commanders below the major subordinate command level are unable to institute program changes (All operations and training in the division is scheduled or planned based on guidance from division headquarters). The POM formulation process at the division level is begun well before offical guidance is received from FMFLant or CMC. To avoid the problems inherent in late guidance (guidance from FMFLant for POM- 87 was dated 28 December, 1984) and in order to meet the deadline established by FMFLant (the deadline is pushed back at each level in order to meet the final deadline set by CMC (the Division's due date to FMFLant for POM-87 was 11 January, 1985), local ceilings and a deadline for submission are determined by the comptroller, based on historical spending (the previous POM is not considered, but the current budget is) and a "best guess" as to what the ceiling and deadline will be from FMFLant. Once the ceilings and a deadline have been established, information on existing and anticipated major programs are combined with them and the package is sent to the general staff for input (G1 through G5). They review the package and make recommendations in their area of expertise as to what changes should be made or what the impact of a new program will be in their area.

When the package has been completely staffed and all recommendations or comments input, it is compared with a previously prepared list of major existing programs, any anticipated changes to them,

and all new programs, for variances. If there is any variance between the input from the general staff and the list, the deputy comptroller contacts the cognizant general staff section for justification or verification.

Once all of the input is collected, collated, and the necessary changes made, it is compared to the ceiling received from FMFLant. Programs are incremented and decremented as necessary to bring the Division into consonance with the proposed POM, based on historical data and the current fiscal environment. The POM is then compiled, and it is again staffed through the general staff. Any conflicts remaining are resolved by the Chief of Staff. Following this final review by the staff, the POM is briefed to the general and changes are made as necessary. A cover letter expressing the general's views and opinions is attached to the package, it is signed by the general and forwarded to FMFLant as the POM for the Division.[49]

(b) Budget Formulation. Unlike the POM process, Budget formulation in the Second Marine Division includes input from their cost centers. About 40 percent of their budget is formulated using input from their subordinate units. The remaining 60 percent is from cost centers internal to the comptroller's office (contracts, exercises, work requests, etc.).

As is the case with the POM, budget formulation guidance from higher headquarters is often late (in some years, the guidance from CMC [Marine Corps Bulletin P7100] has been received after the budget is

49 Personal interview with Captain S. Gaffney, budget officer, Second Marine Division, 5-6 March, 1986.

completed and turned in to FMFLant). To avoid the potential problems this could create, the Second Marine Division formulates its own local guidance. In an attempt to provide sufficient time for the cost centers to formulate useful data, the Division's guidance is published well before formal guidance from FMFLant is received (guidance for fiscal year 1985 went out on the third of February, 1984. The Field Budget Guidance Bulletin from CMC, dated 7 March, 1984, was received in October of 1984).[50] It contains ceilings, based on past cost center spending and projected programs and operations that will have an impact on obligations, and a deadline for input to be received by Division Headquarters. In most cases, the ceiling is less than the previous one. This helps ensure the input submitted is actually needed (if a unit comes in under its previous ceiling, it means that it was over funded in the past) and it provides a margin of safety (the ceiling from higher headquarters is still unknown at this point) in case the ceiling received is less than expected (it is always easier to add to a budget than cut it).

When the information is received at Division, the amounts are checked against what was projected and the results prepared for input into the Marine Air/Ground Financial Accounting and Reporting System. Worksheets are created for fund distribution and deficiencies are reviewed for priority and impact on the Division. The budget is then compiled, compared with the ceiling from higher headquarters, and

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50 Department of the Navy, Headquarters, United States Marine Corps, "Marine Corps Bulletin 7100", dated 7 Mar., 1984 and Commanding General, Second Marine Division's letter 24/SJG/eag: 7110, dated 3 Feb., 1984.

deficiencies are adjusted as necessary to reflect the level of operations required. It is then staffed through the general staff for their recommendations or comments and changes made as necessary.

When the budget has been completely staffed and the recommendations incorporated, it is briefed to the general. Following the general's approval, a cover letter is prepared, attached to the package, and forwarded for the general's signature. After it is signed, the entire budget package is forwarded to FMFLant as the budget for the Second Marine Division.

(c) Budget Execution. Budget execution in the Second Marine Division is controlled through the use of budget work sheets (prepared during the budget formulation process) and reports generated through the Marine Air/ Ground Financial Accounting and Reporting System (MAGFARS). In early September the subordinate commanders are contacted and the financial worksheets prepared during the budget formulation phase are examined. Based on input from the commanders and guidance from higher headquarters, the work sheets are adjusted to reflect any new problems or programs that have occurred since they were prepared. Following this, the money for the first three quarters is allocated to the cost centers with authorization to obligate those funds designated for the first quarter.

Obligation of funds is tracked by the use of the unit's weekly reconciliation report and the mark four report. The first of these, the reconciliation report, is used to track the actual expenditures of each cost center. The report reconciles the cost center's memorandum records with their financial transaction journal (FTJ). This provides an up to date

picture of the status of the cost center's funds, including pending transactions that have not been picked up by the Marine Air/Ground Financial Accounting and Reporting System (for the system to accept an obligation, it must be completed). It allows the budget officer to see who is spending their money and at what rate. To reduce the time involved and ensure the accuracy of the report, memorandum records for each cost center are maintained in the comptroller's officer at the division level by four specially trained supply clerks. The cost centers turn in all gas and supply receipts once a week (usually on Wednesday so the records can be done by the time the financial transaction journal is received on Friday) and the clerks reconcile and update the records. This consolidation combines the work of about thirty cost centers into three - POL, Self Service, and Open Purchase.

The second of the two reports mentioned above, the mark four report, is a local weekly report designed by the Division and produced through the Marine Air/Ground Financial Accounting and Reporting System. Closely resembling the monthly performance report (NAVMC 10890), it provides a profile of the amount authorized and the percent of that authorization obligated, by the quarter, year, and decision unit, for each cost center. The budget office uses this report to follow the obligation pattern of each cost center. It provides the information necessary to identify a trend or mistake in input before it becomes a problem.

Together, these reports provide the comptroller with timely information about obligation rates and they allow him to closely monitor execution. Because of this, the Second Marine Division does not

assign obligation rates to the cost centers. They control their rate by careful planning during the budget formulation stage (worksheets) and the two reports mentioned above. The NAVMC 10890 is not used as a control document because it is not current enough (it is printed once a month) nor does it reflect an accurate command financial plan (as mentioned earlier, the commands in FMFLant are allowed to adjust their command plans as necessary).

Combined with the control offered through the use of these reports, additional control is effected through the midyear review function. As a subordinate command to FMFLant, the Second Marine Division participates in the midyear review process during late January and early February each year. As is the case with the other directed fiscal processes in FMFLant, guidance from higher headquarters concerning midyear review is a continuing problem.

In an effort to compensate for this and the ceiling and time constraints traditionally placed on the Division by FMFLant, the Second Marine Division develops local guidance and publishes it well before offical guidance is received (for the FY 85 Midyear Review, guidance from the Division was published on the 16th of January, while guidance from FMFLant was not published before 25 January, 1985). The ceilings are based on current spending and any information that may impact on future obligations. Usually, the current budget ceilings are used a a guideline pending receipt of the guidance from FMFLant. The deadline is determined based on previous submission requirements from FMFLant.

Working with the local guidance, the cost centers review their current budgets and identify those areas where there has been a change or a deficiency has occurred. This information is then submitted to the Division budget office, where it is compiled and processed in exactly the same manner as the budget formulation input. The amounts are verified and the deficiencies and program changes are checked to see if any have an impact on the Division as a whole. The total is compared to the ceiling from FMFLant (if it is available) and programs are incremented or decremented based on the merits of the justification of their deficiencies. The package is then staffed through the general staff for their recommendation and comments. Based on their input, adjustments are made and a final midyear review package prepared.

Following these adjustments, the comptroller briefs the Commanding General on the midyear review. The general makes any changes necessary and they are incorporated into the review. A cover letter is put on the midyear review package stating the general's views and concerns and the entire package is sent back for signature. After the general signs the package, it is forwarded to FMFLant as the midyear review input for the Second Marine Division.[51]

(2). <u>Second Force Service Support Group (FSSG).</u>

(a) <u>Program Objective Memorandum (POM).</u> Like the other subordinate commands in FMFLant, the Second FSSG suffers from a lack of timely guidance when it comes to formulation of the POM. In the absence of

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51 Personal interview with Captain S. Gaffney, budget officer, Second Marine Division, on the fifth and sixth of March, 1986.

guidance from higher headquarters, the Second FSSG publishes ceilings and deadlines for submission based on the past POM, current programs, and the anticipated deadline from FMFLant. They try to time the release of this guidance to their cost centers so as to allow enough time for them to gather meaningful data for input (approximately two weeks). Historically, the POM is due to FMFLant on the 10th or 11th of January, so the Second FSSG likes to have its guidance in the hands of its cost centers no later than the last week of November, with a due date of the second week in December. This anticipates the holiday season and gives the FSSG time to adequately analyze the input from its cost centers.

When the input from the cost centers is received, the programs and deficiencies are examined for adequate justification and impact on the FSSG. The information is then routed to the decision unit sponsors for review and verification. They examine the input dealing with their area of expertise to make sure it accurately reflects the known or projected programs and deficiencies. Justifications of deficiencies are reviewed for strength and plausibility, and any questions concerning the input are settled between the decision unit sponsor and the cost center who submitted the input.

Following review by the decision unit sponsors, their recommendations and comments are incorporated and the input is consolidated. It is then briefed to the Financial Review Board (made up of the decision unit sponsors and the Chief of Staff) for their examination and recommendations. This board reviews the programs and deficiencies, their ranking and justification, and makes recommendations on them. Following

their input, the POM is briefed to the Commanding General by the comptroller. The general makes final changes and they are incorporated into the POM. A cover letter stating the general's views and concerns is attached to the package and it is returned for signature. After the general signs it, the package is forwarded to FMFLant as the POM for the Second FSSG.[52]

(b) Budget Formulation. Budget formulation in the Second FSSG is very similar to the development of the POM. Unable to rely on timely guidance from higher headquarters, the Second FSSG develops its own guidance for budget ceilings and a submission deadline, based on spending history, past due dates, and informal contact with FMFLant. The ceilings are developed without regard for previous POM submissions, as they have been found to be completely unrelated to the actual budgetary needs of the the unit. The deadline for submission of input to the Second FSSG is computed based on past experience with the deadlines from FMFLant. Historically, the deadline from FMFLant has been the first week of April, and in an attempt to give their cost centers enough time to develop meaningful input, the Second FSSG attempts to have its guidance issued by the second week in February.

After the guidance is prepared, the Second FSSG holds a meeting for its fund administrators, to issue the above mentioned guidance and explain it to them. Following this meeting, the fund administrators prepare their budgets, based on the established ceiling, by quarter, decision unit, cost account code, and expense element. For those requirements that cannot be met within ceiling, each administrator submits deficiencies with

52 Telephone interview with Lieutenant C. Dyer, budget officer, Second Force Service Support Group, on the third of March, 1986.

a narrative justification. The budget office prepares a budget for those items it controls internally (such as exercises and Mediterranean deployments).

Following the receipt of the budgets from the fund administrators, the budget for the Second FSSG is created by the budget office by compiling the input and combining it with the budget office's internally controlled budget. All deficiencies are screened by the budget office for validity and sound justification. The package is then broken up by decision unit and staffed through the various decision unit sponsors for review and comment. Any questions that arise concerning deficiencies or justifications are addressed to the cognizant fund administrator by the specific decision unit sponsor.

Following receipt of the input from the decision unit sponsors, the budget is compiled and reformulated into a single package reflecting the changes requested by the decision unit sponsors. Deficiencies are culled and included in the budget according to their impact on the FSSG (priority), and the strength of their justification. When the budget is in a semi-smooth form, it is briefed to the Financial Review Board for final input or comments. Following review by the board, the budget is briefed, by the comptroller, to the Commanding General. After this brief, any changes required by the general are made to the budget and a cover letter is attached expressing the general's views and concerns. The entire package is then returned for signature. After the package has been signed by the general, the budget is forwarded to FMFLant.

(c) Budget Execution. Budget execution in the Second FSSG is controlled through a series of interacting measures. When the FSSG receives its new obligational authority, the money is divided among its cost centers, depending on the amount received, the current fiscal environment, and the amount requested by the cost center in the earlier budget submission. If the amount received is less than was anticipated, the money is divided among the cost centers according to the strength of the justifications they submitted earlier, modified for any changes that may have occurred. The division of the obligational authority among the cost centers is done through the use of target limitation authorizations (TLA).

Each cost center receives a TLA that reflects its entire fiscal plan for each quarter, by decision unit. However, the initial authorization contains a specific statement restricting obligational authority to the amount reflected for the first quarter, with additional authorization becoming effective on the first day of each new quarter. During the year, as obligations occur, money is moved between decision units by the individual commanders to cover various contingencies and changes to their operational plans. As this occurs, an amendment to the TLA is issued to reflect approved changes to the commands current financial plan.

To ensure the execution of its funds is done in a timely manner, the Second FSSG issues mandatory quarterly obligation rates that each cost center must meet (100 percent by the last day of each quarter). The Second FSSG monitors the obligation rate of its units through the use of the performance statement (NAVMC 10890) and the command status of funds

report. These reports are issued weekly (command status of funds report), and monthly (NAVMC 10890), to both the FSSG and their fund administrators, through the Marine Air/Ground Financial and Accounting and Reporting System (MAGFARS). They are examined and, if variances are discovered, the FSSG calls the fund administrator to ask for justification. In extreme cases of underobligation, the FSSG will take money from a cost center and apply it to another one where it is needed.

Combined with the control internally generated by the FSSG, execution control is further enhanced by the command's participation, during January of each year, in a mandatory midyear review. However, unlike other commands in FMFLant, midyear review in the Second FSSG is combined with their own internal quarterly review. In an effort to deal with the problems inherent in the mission of their unit (as a Force Service Support Group, the Second FSSG provides support to the operating forces of the Marine Corps -- that means that most new programs and operations initiated by CMC require support from the FSSG, and they usually require this support before the funds are made available by CMC), and the submission deadline from FMFLant, the Second FSSG conducts a quarterly review. This allows the cost centers to adjust their financial plans to reflect the actual impact of operations and new programs, while it allows the Second FSSG to more accurately control the execution of its budget and the flow of its money.

The conduct of the midyear review (and the quarterly reviews) is much the same as the budget formulation process. Cost centers assess their budgets in light of current guidance and programming and

submit an assessment of their needs, with deficiencies and justifications. These are collected by the budget office, reviewed for accuracy and strength of justification, and staffed through the decision unit sponsors. Following their individual input, the midyear review is collated and briefed to the Financial Review Board. They set the priority of the deficiencies and resolve any conflicts concerning program deficiencies or additions. Following this review the recommended changes are incorporated and the midyear review package is briefed to the Commanding General. After the general has approved the package, a cover letter is attached and it is returned for signature. After the general signs it, the entire package is forwarded to FMFLant as the midyear review for the Second Force Service Support Group.

In addition to the control inherent in the midyear and quarterly review process, the command issues guidance during the May-June time frame (closeout guidance) to ensure that the year end overall obligation rate for the FSSG is 99.5 -100 percent. Since, by Congressional mandate, no more than 20 percent of a command's funds may be obligated during the last two months of the last quarter, the FSSG issues guidance stipulating that:

(1) All open purchases must be made prior to September First

(2) All fuel purchases must be completed by 15 September

(3) All purchases from the Direct Service Supply Center after September first are on an emergency basis only.

This prevents last minute spending of funds that could result in reverted balances and helps ensure that the obligation rates reflected at the end of September are close to being accurate.

Finally, as an overall control of execution exercised by the Commanding General, the importance of the obligation rate is reinforced through the medium of the Commanding General's Commanders Conference. The Commanding General is notified of the overall status of the FSSG's obligation rate, by cost center and command and the general uses the conference as a forum to discuss fiscal performace.[53]

(3). The Second Marine Aircraft Wing (2nd MAW)

(a) Program Objective Memorandum (POM). Development of the POM in the Second Marine Aircraft Wing usually occurs during November and December. Guidance from higher headquarters is usually received in mid-December, with the input due to FMFLant in early to mid-January. In order to give its cost centers enough time to gather their data, the Second MAW formulates guidance based on the previous year's POM, known increases in existing programs, and informal telephone contact with the budget office at FMFLant. Once formulated, the guidance is issued to its cost centers in early November, well prior to the receipt of formal guidance from FMFLant. The thrust of the guidance identifies new editions of programs, increases in existing programs, and identifies areas of current interest that are of special concern (such as special operations). The deadline for the submission of input into the POM is predicated on past experience with deadlines for submission to FMFLant, and it is established to allow the cost centers time to gather meaningful data for input.

When the input from their cost centers is received by the Second MAW, the budget office reviews it for accuracy and validity.

53 Telephone interview with Lieutenant C. Dyer on 3 March, 1986.

Program deficiencies and new programs are reviewed for justification and impact on the Wing. They are then consolidated and routed to the program sponsors (usually the staff sections - G1 through G5) for their review and recommendations. The program sponsors recommend the overall priority ranking of any program deficiencies or new programs and comment on their probable impact.

Where the opinions and recommendations of the program manager conflict with the input of a fund administrator, the budget officer contacts them and tries to work out a solution. When he is unable to resolve the conflict, he notifies the assistant comptroller, who briefs the problem to the comptroller for resolution. Following the comptroller's resolution of the problem(s), the recommendations of the program sponsors are incorporated into the POM and a smooth package is prepared for the Chief of Staff's review. Following the approval of the Chief of Staff, the POM package is briefed to the Commanding General. At that point, any areas of contention that were unresolved are examined and the general makes the final decision. After the general has approved the package, a cover letter is attached and returned for his signature. After the general signs the cover letter, the package is forwarded to FMFLant as the POM for the Second Marine Aircraft Wing.[54]

(b) Budget Formulation. Budget formulation in the Second Marine Aircraft Wing is predicated upon guidance developed without formal input from FMFLant. As with the POM, budget formulation guidance from

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[54] Telephone interview with Lieutenant Manley, budget officer for the Second Marine Aircraft Wing for the period January 1983 - December 1986, on 5 March, 1986.

higher headquarters is usually untimely. Accordingly, the Wing develops ceiling guidance for its cost centers based on the previous year's numbers (arbitrarily reduced 15 percent to ensure budget submissions from the fund administrators for the external cost centers come in under the likely ceiling from FMFLant) and telephone contact with FMFLant. The 15 percent reduction is used to test the validity of the budget bases of the external cost centers. When the input comes in, any deficiencies are compared with past input to see if there has been an increase. If the level or types of deficiencies remains constant, then the previous funding base was too high. This arbitrary reduction is not applied to the cost centers that are controlled internally by the budget office. The numbers from previous POMs are not used to compute the ceilings because the Second MAW has found that the POM input does not reflect the reality of actual operations. The Second MAW develops its deadline for submission of budget input from its fund administrators based on past deadline requirements from FMFLant. Since the guidance is issued to the cost centers well before formal guidance is received from FMFLant, it contains a statement to the effect that it is only preliminary guidance. If the guidance from higher headquarters is received after budget submissions have been received from their cost centers, the Second MAW budget office adjusts the input to conform to the guidance. This reduces the amount of work the cost centers have to do.

Following the submission of the budgets from the various fund administrators, the budget office consolidates them and checks for accuracy, format and required exhibits. The input is then broken into two separate parts; funds within ceiling and deficiencies. The in-ceiling money

is reverified and, if correct, used to begin the mechanical budgeting process. If the amounts are not correct, the budget office notifies the responsible fund administrator and makes the necessary corrections. The deficiencies are staffed to the appropriate staff sections for review and comments and the required exhibits are requested (each staff section has cognizance over a particular aspect of the Wing's operations and is required to submit budget exhibits that are derived from the in-ceiling input from the various fund administrators.). If a staff section has a question about a particular deficiency, they go directly to the source (fund administrator) and it is settled at that level.

After the staff sections have reviewed the deficiencies, the budget office consolidates the valid deficiencies with the budget exhibits submitted by the staff sections and all they are reconfirmed and checked against the current guidance. At this point, following the guidance contained in the Field Budget Guidance Manual, a rough budget is prepared. A working copy is prepared and staffed through the staff sections for comments and review. Based on their input, a smooth copy of the budget and a preliminary cover letter are prepared. The assistant comptroller and the comptroller are briefed, and following their approval, the Commanding General. The budget brief for the general is attended by representatives from all the primary staff sections and a final review of the budget is done. Changes recommended by the general are incorporated into the smooth budget and it is returned for signature. After the general has signed it, the budget package is forwarded to FMFLant.

(c) Budget Execution. Control over budget execution in the Second Marine Aircraft Wing is exercised through a number of interrelated processes and reports. When the new obligational authority is received from FMFLant, it has been separated by decision unit. The Second Marine Aircraft Wing issues it to the fund administrators by job order number (JON). They get their money in the amounts and areas they requested, as it was originally input into their command financial plan. Each fund administrator receives a target limitation amendment (TLA) that shows its total obligational authority for the year, by quarter, by cost center, and by JON, as they requested it. The TLA contains concise language authorizing the obligation of specific amounts for each quarter, by quarter. Additionally, it contains a column that shows the amount requested or authorized in the fund administrator's original command financial plan, and a column showing authorized changes to the TLA.

This target limitation amendment is used, in conjunction with several reports from the Marine Air/Ground Financial Accounting and Reporting System, to monitor the execution of the budget on a weekly and monthly basis. In the Second Marine Aircraft Wing, the primary reports used are the fiscal document transmittal (FDT), the financial transaction journal (FTJ), the reconciliation report, and the performance statement (NAVMC 10890).

Each week, fund administrators with a target limitation amendment prepare a fiscal document transmittal (FDT) to update their accounts at the Consolidated Fiscal Accounting Office (while the Sassy Management Units are directly linked to the Marine Air/Ground Financial

Accounting and Reporting System, those purchases from sources not directly linked to the system must be manually input). It shows the units most recent obligations, by JON, and their remaining balance. Conversely, the Consolidated Fiscal and Accounting Center prepares weekly financial transaction journals for each cost center. These are a record of all the transactions that have been recorded for a cost center during the past week in the Marine Air/Ground Financial Accounting and Reporting System. These journals are required to be reconciled with each cost center's memorandum records on a weekly basis. After the records have been compared to the financial transaction journal, a reconciliation report from each unit receiving a financial transaction journal is returned to the Consolidated Fiscal Accounting Office. This report is used to make corrections to the cost center's account for pending transactions and erroneous entries. The results of all of these reports are contained in the monthly performance statement (NAVMC 10890). Produced through the Marine Air/Ground Financial Accounting and Reporting System, it compares the current obligations of a unit with their approved operating budget, by program element, at the function and subfunctional category and cost account level. The NAVMC 10890 can be used to measure the execution of the operating budget by comparing actual obligations against the command plan.[55]

In the Second Marine Aircraft Wing, when a cost center prepares a fiscal document transmittal, the report goes to the Wing budget office, where it is reviewed for accuracy and appropriateness prior to being

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[55] Department of the Navy, United States Marine Corps, Marine Corps Order p7300.10B, Mechanized Financial Procedures for Selected Marine Corps Posts and Stations, 21 June, 1977, p. 6-2.

forwarded to the Consolidated Fiscal Accounting Office. If a problem is found, a fiscal document transaction discrepancy report is prepared and sent to the fund administrator (or cost center). The transaction in question is deleted from the fiscal document transmittal and sent back for justification or resubmission. This process is followed by a review of each fund administrator's and cost center's weekly financial transaction journal, their corresponding reconciliation report, and the monthly performance statement. This review of their obligations on a weekly basis, with a monthly overview, highlights potential problems (such as erroneous inputs or unsatisfactory obligation rates) and allows the budget office to eliminate them before they become serious. It is the primary reason that the Second Marine Aircraft Wing has not had to establish mandatory obligation rates for their fund administrators or cost centers to meet the obligation rate established by FMFLant.

In addition to the careful attention given to the various reports mentioned above, the Second Marine Aircraft Wing enhances execution control through participation in the required annual midyear review. Usually due to FMFLant by the 15th of February, The Second Marine Aircraft Wing publishes its guidance in early January. In light of the timeliness of guidance available from FMFLant, the ceilings and deadlines issued are locally developed based on past performance and the current fiscal situation. To avoid having to force a reduction on its fund administrators, the ceiling issued is somewhat lower than the current operating ceiling (usually about five percent). If the guidance from FMFLant contains a ceiling reduction not covered by the five percent local reduction,

the Second MAW budget office adjusts the input on their level. The deadline for submission of input is established to provide enough time for the units to develop meaningful data.

Primarily interested in changes in current requirements or new programs, the budget office reviews the data from its fund administrators and cost centers for validity and accuracy, as well as possible impact on the Second Marine Aircraft Wing as a whole. As the data comes in, it is processed in the same manner as the POM, with the deficiencies being staffed through the staff sections for review or comment. Those deficiencies identified as valid are prioritized and, if unable to be funded from within by the reallocation of existing monies, included in the midyear review that is briefed to the general. Often, most of the deficiencies that are identified can be funded from excess money that has become available through the cancellation of programs or the reduction of an operation or exercise.[56] Following the general's approval of the midyear review package and the incorporation of any changes, a cover letter is put on it. The package is then returned for the general's signature and forwarded to CMC as the midyear review for the Second Marine Aircraft Wing.[57]

C. Conclusion

The fundamental purpose of this thesis is to examine the effectiveness of budget control and execution in the Fleet Marine Force. During this process, the information contained in the interviews

56 Telephone interview with Lieutenant G. Manley on 5 March, 1986.
57 Telephone interview with Lieutenant G. Manley on 5 March, 1986.

summarized above was combined with the information gleaned from the supporting reference materials (budgets for FY 85, various fiscal guidance issued, orders and SOP's published concerning budget control and execution etc.) and used to assess the effectiveness of budget control and execution in FMFLant.

In those units examined in the Fleet Marine Force Atlantic, budget control and execution follows the cycle outlined in chapter one. The Program Objective Memorandum process establishes the basis for the budget ceilings applied to FMFLant by Headquarters Marine Corps. These budget ceilings become the basis for the Operations and Maintenance, Marine Corps, budget submitted by FMFLant. The separate budgets that comprise the Operations and Maintenance, Marine Corps, budget are the basis of the annual command plan of the individual submitting units that are used for executing the budget. Monitoring of budget execution is done through reports generated by the Marine Air/Ground Financial Accounting and Reporting System. Evaluation of the effectiveness of budget execution is a function of obligation rates established by higher headquarters and the variance between the annual command plan and the the amount authorized.

This system of budget control and execution, while sound in principle, is not effective in practice. Through no fault of the various units in FMFLant, the system design does not lend itself to the realities of budgeting and execution in an uncertain operational environment that lacks definitive guidance. This failure of the system is exemplified by the FY 85 budget process. Figure 2-1 is selected fiscal data from the 1985 fiscal year for the Second Force Service Support Group, the Second Marine Division,

and the Second Marine Aircraft Wing. It reflects the original budgets submitted to FMFLant (Original budget), the level they were funded at (Command Plan), and total obligations (RA and PE, less reimbursables) for the beginning of the fiscal year (October 1984), the midpoint (May 1985), and the final close out (September 1985). Comparison of the data from the beginning of the fiscal year with that of the midyear and close out highlights the weaknesses in the system of budget control and execution. As an example, a comparison of the command plans in effect in September 1985 (the end of the fiscal year) with the year-end total obligations, shows that, on the average, each unit exceeded their funding level by 20.84%. A comparison of their original budgets with their year end total obligations shows that, on the average, each unit exceeded their budgeted input by approximately 66.46%.[58]

This data, as revealing as it may be, reflects mainly the extraordinary efforts of the financial managers and commanders who have had to make the system work. It does not pinpoint specific weaknesses in the system. A review of the information gathered from each command studied in FMFLant indicates these figures are the result of a number of interrelated problem areas, beginning with a fundamental weakness in the POM process. In the Marine Corps at the FMF level, the PPBS process begins with the POM process. Paraphrased, it is "the bridge between the planning process and the budget through which potential resource availability for the program years is determined and plans are converted into specific

58 Performance Statement (NAVMC 10890), number two reports, (obligation recap) for the Second FSSG, Second MARDIV, and Second MAW, for the months of October, 1984, May, 1985, and September, 1985.

FIGURE 2-1
Financial data for selected major subordinate commands in FMFLant

UNIT	ORIG PLAN	CMD PLAN	TOTAL OBLIG.	% CMD PLAN IS OF ORIG PLAN	% TOT OBLIG ARE OF CMD PLN
			OCTOBER 84		
2ND FSSG					
	31733000	68098000	5933146	214.60%	8.71%
2ND MARDIV					
	19553000	19425000	3185195	99.35%	16.40%
2ND MAW					
	17772000	17772000	2239186	100.00%	12.60%
			MAY 85		
2ND FSSG					
	31733000	77579300	52352684	244.48%	67.48%
2ND MARDIV					
	19553000	18563213	15823551	94.94%	85.24%
2ND MAW					
	17772000	16964000	11164764	95.45%	65.81%
			AUGUST 85		
2ND FSSG					
RA		17621000	21039850		
PE		64001300	58033789		
TOTAL	31733000	81622300	79073639	257.22%	96.88%
2ND MARDIV					
RA		10845000	16647945		
PE		6476213	5980835		
TOTAL	19553000	17321213	22628780	88.59%	130.64%
2ND MAW					
RA		8371000	10012052		
PE		8553000	7852534		
TOTAL	17772000	16924000	17864586	95.23%	105.56%
			SEPTEMBER 85		
2ND FSSG					
RA		17621000	23031804		
PE		67289118	61439051		
TOTAL	31733000	84910118	84470855	267.58%	99.48%
2ND MARDIV					
RA		10845000	17766304		
PE		5736213	6031739		
TOTAL	19553000	16581213	23798043	84.80%	143.52%

Figure 2-1 continued

Financial data for selected major subordinate commands in FMFLant

2ND MAW					
RA		8371000	11558474		
PE		8193000	8237748		
TOTAL	17772000	16564000	19796222	93.20%	119.51%

TOTAL OBLIGATIONS COMPARED TO ORIGINAL PLAN

2ND FSSG 266.19%

2ND MARDIV 121.81%

2ND MAW 111.39%

AVERAGE PERCENT OBLIGATED OVER ORIGINAL PLAN

166.46%

TOTAL OBLIGATIONS COMPARED TO ORIGINAL COMMAND PLAN

2ND FSSG 124.04%

2ND MARDIV 122.51%

2ND MAW 111.39%

AVERAGE DIFFERENCE BETWEEN ORIGINAL COMMAND PLAN AND TOTAL OBLIGATIONS

119.31%

AVERAGE PERCENT OVER OBLIGATED FOR FY 85

20.84%

PERCENT INCREASE IN PE OBLIGATIONS IN THE LAST MONTH OF FY 85

2ND FSSG 5.54%

MARDIV 0.84%

2ND MAW 4.68%

PERCENT INCREASE IN RA OBLIGATIONS IN THE LAST MONTH OF FY 85

2ND FSSG 8.65%

2ND MARDIV 6.29%

2ND MAW 13.38%

Figure 2-1 continued
Financial data for selected major subordinate commands in FMFLant

PERCENT INCREASE IN TOTAL OBLIGATIONS IN THE LAST MONTH OF FY 85

2ND FSSG	6.39%
2ND MARDIV	4.91%
2ND MAW	9.76%

PERCENT INCREASE IN COMMAND PLAN IN THE LAST MONTH OF FY 85

2ND FSSG	3.87%
2ND MARDIV	-4.46%
2ND MAW	-2.17%

descriptions of personnel, material, and systems that will best permit the plans to be executed within the stated financial limitations. It estimates the cost of attaining force objectives for financial and manpower resources five years into the future".[59] If this concept is logically projected, it stands to reason that the POM projections for a given year should closely parallel, if not match, the budget projections for the same year. Unfortunately, due to the shortcomings in the system of budget control and execution in FMFLant, this is not so. Often, because of the nature and scope of the POM process, it is viewed, in many cases, as a yearly drill that has little or no relation to the budget. Accordingly, each major subordinate command formulates their input in different ways, with the emphasis seemingly on timeliness and protection of ongoing programs, vice accuracy. In the event the POM input received is below the established ceiling, it is not uncommon for it to be "adjusted" and deficiencies created to ensure the

59 Marine Corps Planning and Programming Manual, p. 2-6

base of a program is protected or a new "favorite" program funded.[60] This distorts the figures that are submitted to FMFLant and in turn, the input from FMFLant that is used by Headquarters Marine Corps to establish the budget figures upon which FMFLant's eventual budget is based.

This initial problem with the POM input in the FMF is compounded by the timing problem that faces each unit that participates in the financial cycle (POM, midyear review, and budget). When Headquarters Marine Corps, is not timely with financial guidance (such as ceilings and deadlines), it forces each subsquent command in the chain of command to adjust. As each command enters the financial cycle, to ensure it has enough time to process the input, it creates its own ceilings and backs up the input requirement date. As this process is repeated down the chain of command, it results in the cost centers at the bottom not having enough time to develop accurate input. When inexperienced fund administrators (as most fiscal officers at the cost center level are) are faced with this situation, they often simply adjust last year's input for inflation and submit it. The net result is that the numbers that are received by each subsquent level of command lack substance and they are often adjusted by the budget officer, decision unit sponsor, or comptroller before being compiled into a single input for submission to higher headquarters. By the time this input reaches the Headquarters Marine Corps level, it may have been "adjusted" for accuracy four different times, and it will probably be "adjusted" at least once more

60 Interviews with past and present budget officers in the FMF, August, 1985 through April 1986.

before it is used as the basis of the input of the Fleet Marine Corps into their budget.[61]

This problem is further aggravated by the control measures used during the budget formulation process. As in the POM process, when guidance is not forth coming from higher headquarters (either CMC or FMFLant, depending on the unit), each command issues their own guidance, usually based on past historical data, and a "feel" for current conditions (with a "fudge factor" thrown in to ensure the input is below what the anticipated ceiling will be).[62] These ceilings are used by the major subordinate commands and cost centers as a goal to be reached, rather than a guide line not to be exceeded. If it appears that the budget requirements for a command will be below ceiling, input is often adjusted to create unfunded deficiencies, ensuring it is above ceiling and its budget base is protected. This creates inflated budget requests and leads, in part, to distrust (from Headquarters Marine Corps down to the major subordinate command level) of the budget figures submitted. Accordingly, the only way for a command to determine the accuracy of the budget requests it receives is to compare them with historical spending patterns, as adjusted for projected changes (via the POM and inflation). In view of the development of the POM and inflation projections, this is often difficult to do. No one ever

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61 Interviews with past and present budget officers in the FMF between August 1985 and April 1986.

62 See paragraph 2 for specific information on guidance formulation.

submits a budget that is less than the ceiling assigned by higher headquarters.[63]

The effect of the weaknesses discussed above on budget control in FMFLant is exacerbated by the weak control and reporting methods exercised during the execution phase of the PPBS process. The primary means used to control budget execution in FMFLant is the obligation rate. Headquarters Marine Corps establishes an acceptable obligation rate for the FMF. In turn, FMFLant tasks each of its major subordinate commands with maintaining an acceptable quarterly and annual obligation rate. This obligation rate becomes a means unto itself. Since failure to maintain an acceptable rate can mean a reduction in available funds, to protect the base, a commander will juggle his accounts to ensure that the required rate is maintained. This often forces disfunctional behavior from the budget officer. The system is often actively manipulated and money budgeted, moved or obligated, as necessary, based on the obligation rate instead actual needs. Since they are often judged on their ability to meet the obligation rate, it is not uncommon for a budget officer to budget a reserve to ensure the "command" is not caught short. If it appears that a command will not be able to meet its obligation rate, one method used is for obligations to be created at the end of the quarter to bring the obligation rate up, and then cancelled after the new quarter begins. At the end of the fiscal year, it is not uncommon for money to be "dumped" into a unit where it can be rapidly spent, such as the FSSG or the Tank and/or Amphibious Tracked Vehicle Battalions, to avoid having to return it or admit they did not budget properly. In the final

63 Interview with the budget officers in the FMF, August 1985 through April, 1986.

reckoning, when commands are judged on how effective they are, the obligation rate, not efficient utilization, tends to be the driving force behind execution.[64]

This manipulation of the obligation rate is possible because of the dependency of the Marine Air Ground Financial Accounting and Reporting System on external input for its base data. The system relies on the command to input accurate data and reconcile its accounts on a weekly basis. As long as the system is dependent on data directly from the command (via reconciliation of memorandum records) and the command has a vested interest in maintaining its obligation rates, efficient and effective execution will continue to be sacrificed for optimum obligation rates.

This trend will continue, regardless of any changes made to improve budget control and execution in FMFLant, unless the emphasis of the current reward system in the Marine Corps is changed. The Marine Corps' philosophy on financial management is that it is inherent in command, and commanders will be given maximum flexibility in the application of their funds.[65] Based on this premise, the budget control and execution system in FMFLant has been structured to parallel the command relationships; the commander who executes the budget is responsible for its planning. The problem occurs when the commander, as a professional military leader, is faced with the conflict that exists between operational requirements, maintenance and sustainability, and the constrained financial resources available. The commander is rewarded for performance by good fitness

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64 Interviews with past and present budget officers in the FMF during August 1985 through April 1986.

65 Marine Corps Manual, p. 1-13.

reports and eventual promotion, based on the ability to please his or her reporting senior. This can lead to decisions not motivated by budgetary constraints, but by the desire to impress the person who writes the fitness report. As such, a commander will often use the financial resources available in a manner most likely to garner the best fitness report (highest reward). Often, one area will be sacrificed (such as maintenance of material) to obtain high marks in an area such as operations, because it is an area of particular interest to the general. This can be especially disastrous when Commanding Officers change (as they generally do every two years). Almost invariably, the new commander wants to make a good impression and "hit the ground running", often at the expense of the planning and budgeting done by the previous commander. It often requires extensive manipulation of the budget and causes a ripple effect in budgeting and execution down to the smallest cost center. It can result in a financial plan that is unrecognizable from the original plan.

Altering the system to reflect the premise that financial management is inherent in command won't by itself be enough to solve the problems with budget control and execution in FMFLant. Solutions will have to be found to the problems of congruence between the POM process and the budget, the use of ceilings and obligation rates as control measures, and the Marine Air Ground Financial Accounting and Reporting System. Once these solutions are found, they will still have to be intergrated in such as way as to be acceptable to a traditionally conservative Marine Corps.

III. BUDGET CONTROL AND EXECUTION IN THE FLEET MARINE FORCE PACIFIC

A. INTRODUCTION

This chapter discusses budget control and execution as it is applied in designated commands of the Fleet Marine Force Pacific (FMFPac). The effectiveness and efficiency of budget control and execution in FMFPac is examined through interviews with past and present budget officers of the First and Third Marine Divisions, the First and Third Force Service Support Groups, The First and Third Marine Aircraft Wings, and the First and Seventh Marine Amphibious Brigades. The information and insight gained from these interviews, combined with a review of the FY 1985 performance statements (NAVMC 10890), budget submissions, and the budget guidance received and issued, for each of these units, is the basis for the information presented below. For continuity and ease of reading, this chapter is divided by geographical area into three sections: Fleet Marine Forces Hawaii area (Headquarters FMFPac and the First Marine Brigade), Fleet Marine Forces Eastern Pacific (the First Marine Division, the First Force Service Support Group, the First Marine Aircraft Wing, and the Seventh Marine Amphibious Brigade), and Fleet Marine Forces Western Pacific (The Third Marine Division, the Third Force Service Support Group and the First Marine Aircraft Wing).

B. FLEET MARINE FORCE PACIFIC (FMFPac)

1. Structure

In the Fleet Marine Force Pacific, the structure of the command is in response to distance, size, geographical realities and operational

responsibility. Containing two thirds of the operating forces of the Marine Corps, FMFPac is divided by geographical area into Fleet Marine Forces, Eastern Pacific (EPAC) [covers those forces located primarily in California and Arizona], Fleet Marine Forces Hawaii (HIAREA) [those forces located in Hawaii], and Fleet Marine Forces Western Pacific (WESTPAC) [those forces located on Okinawa and Japan].

Broken out by major subordinate command for financial control purposes, the EPAC area consists of the First Marine Amphibious Force, the First Marine Division, the First Service Support Group, the Third Marine Aircraft Wing, and the Seventh Marine Amphibious Brigade. The major subordinate commands of WESTPAC are the Third Marine Amphibious Force, the Third Marine Division, the Third Force Service Support Group, and the First Marine Aircraft Wing. In the HIAREA, for financial control purposes, the First Marine Brigade is the only FMF command considered a major subordinate command.[66] Of the major subordinate commands contained in the areas listed above, all are included in the scope of this thesis, with the exception of the First and Third Marine Amphibious Forces.

In order to effect financial controls and provide specific authorizations and targets, a suboperating budget (SUBOPBUD) is created by Headquarters, FMFPac, to fund the operations of the major subordinate commands located in each area. However, under the concept of consolidation

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66 United States Marine Corps, Headquarters, Fleet Marine Force Pacific, FMFPac Order P7000.1H, Standard Operating Procedures for Financial Management, 14 March, 1984, p. 1-11.

of accounting functions, FMF major commands do not receive SUBOPBUD's. Therefore, legal responsibility for the administration of these funds remains with the Commanding General, FMFPac, and they are administered by Headquarters, FMFPac, in Hawaii. In place of a SUBOPBUD, the major subordinate commands in each area receive their funds via Planning Estimates (PE) and Requisitional Authorities (RA). These funds are then further suballocated by the major subordinate commands to their cost centers. The fiscal year (FY) total of the PE and RA, as obligated by the cost centers, represents the operating resources of the command for the fiscal year.

While no legal responsibility is attached to these funds, with the issuing of these funds comes the responsibility of a subordinate to a superior to execute and administer the funds in accordance with applicable guidance from higher headquarters. To support this concept, Consolidated Fiscal/Financial Accounting Offices (CFAO's) are established in each Pacific geographical area (EPAC, HIAREA, and WESTPAC) to provide offical accounting and reporting under the Marine Air/Ground Financial Accounting and Reporting System (MAGFARS) to each major subordinate command and FMFPac.[67]

2. Budget Control and Execution

Budget control and execution in FMFPac, like that of FMFLant, is an intergrated process that generally follows the four basic steps outlined in chapter one. However, due to the problems of size, geographical realities,

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67 FMFPac Standard Operating Procedures (SOP) for Financial Management, 14 March , 1984, p. 1-12.

and the operational responsibilities inherent in the various commands that make up FMFPac, there is more variation in the process.

a. Hawaii Area (HIAREA)

(1) Headquarters, Fleet Marine Force Pacific

(a) The Program Objective Memorandum (POM). The budget control process in FMFPac begins when Headquarters Marine Corps (CMC) begins the financial cycle with its call for input into the POM. An annual event, the POM process at the FMFPac level is usually begun prior to receipt of formal guidance from CMC. Accordingly, FMFPac issues guidance to its major subordinate commands in the form of control numbers (ceilings) and deadlines for submission of the input. The ceilings are based on each command's past POM submissions (as reflected in a track sheet of previous POMs) and its last funding base, while the deadline is predicated on past deadlines from CMC. This guidance is usually issued to the subordinate commands by the middle of December, with a deadline for submissions of the middle of January.

When the input is received from the major subordinate commands, it is reviewed against several "checks". It is compared against the unit's previously funded ceiling, what the increments and decrements were, and the time frame of the program or deficiency. Odd numbered years are light Joint Chief of Staff (JCS) exercise years and JCS funding is reduced during those years. This has a significant impact on FMFPac, since the operational tempo of the FMF is driven by the JCS and the Five Year Defense Plan. The input is then checked for consistency with previous POMs, the major subordinate command's unit report, situation reports from the

Commander in Chief, Pacific Fleet (CINCPACFLT), previous budgets, and previous midyear reviews. During this process, the input is screened for new programs, old programs that were never fully funded, and programs that are above their current base (deficiencies that had been previously included in a units base are disallowed).[68]

Once this process has been completed, the input is staffed through the decision unit sponsors for their input and recommendations. When an area of contention arises over a proposed deficiency, the decision unit sponsor originates a dialogue with the originating command to resolve it. However, the final decision as to the disposition of the deficiency lies with the decision unit sponsor.

When the recommendations and comments from the decision unit sponsors have been received and incorporated, the budget officer assigns a priority to the deficiencies and compiles the POM. A cover letter is attached and the POM is briefed to the primary members of the staff and the Commanding General (the Chief of Staff gets an advance copy of the cover letter). Following the brief, any necessary revisions are made and the POM is returned to the Commanding General for signature (often, if no changes are necessary, the POM is signed immediately following the brief) and forwarded to the Commandant of the Marine Corps.[69]

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68 Telephone interview with Major J. Cargill, the previous budget officer for FMFPac, now the budget officer for the Fifth Marine Amphibious Brigade, on 4 April, 1986.

69 Telephone interview with Major J. Cargill, 4 April, 1986.

(b) Budget Formulation. Budget formulation at Headquarters FMFPac occurs during late February and march, with input due to CMC by 30 April. As with the POM, guidance from CMC is seldom timely. To compensate, FMFPac establishes its own ceiling and deadline for submission. The Ceiling is based on information gained from telephone conversations with Headquarters Marine Corps, previous year end budget amounts as reflected in the year-end closeout performance statements (NAVMC 10890's) and an "educated guess". The deadline is based on past experience with the requirements of its subordinate commands and CMC.

Following receipt of the input from their major subordinate commands, FMFPac processes the information in the same manner as the POM. The various budget requests are checked for consistency against the individual command's track sheet (previous POM, budget, midyear review, and unit report input). The requests are adjusted to reflect individual trends indicated by the various track sheets and previous budget bases. Additionally, the budget requests are checked against any naval audit service findings that were concurred with by the command and the budget requests are reduced to reflect the estimated savings.

Following this review, the budget requests are staffed through the decision unit sponsors for their recommendations and comments. Their input is then consolidated with the budget requests and the budget for FMFPac is compiled from the results. A cover letter is prepared (once again, the Chief of Staff receives an advance copy) and the budget is briefed to the primary staff members and the Commanding General. After any necessary revisions are made and the budget has been signed by

the general, it is forwarded to the Commandant of the Marine Corps for inclusion in the Marine Corps' budget request to the Department of the Navy.

(c) Budget Execution. Control during the execution phase of the financial cycle begins with the obligational authority and obligation rates established by CMC for FMFPac. Using a balanced integrated approach, where no one unit is more or less important than another, when obligational authority is received by FMFPac it is issued to the major subordinate commands based on their financial plan.

The execution of the individual major subordinate command's financial plan is then monitored through the use of the performance statement (NAVMC 19890). Monitored on a monthly basis by both the analysis and review section and the budget office, the 10890 is used to ensure that units are maintaining their required obligation rate. Based on the overall obligation rate assigned to FMFPac by CMC, the obligation rate is monitored by comparing a units command plan with its total obligations for the period. Since a consolidated 10890 is sent directly to CMC, where the obligation rate for all of FMFPac is used to monitor the effectiveness of budget execution in FMFPac, a great deal of attention is paid to obligation rates by Headquarters FMFPac. As a result, failure to meet the required obligation rates can be a double threat to the commander. It results in the command being included in a report from the analysis and review section to the Chief of Staff and it could result in a reduced funding base due to a reduction in funds at midyear review. This means that not only is the commander "put on report" to the Chief of Staff, but reduced funding could prevent the accomplishment of the command objectives; the

accomplishment of which are part of the basis for the commander's fitness report.

In addition to the emphasis on obligation rates and the 10890, execution control is exercised through the annual midyear review. Occurring in January each year, guidance from CMC for the midyear review is slow. As such, FMFPac formulates its ceiling guidance based on the annual plans of its major subordinate units and the deadline is based on the premise of one month for the subordinate commands to formulate their input, and one month for FMFPac to consolidate it.

Input from the midyear review is processed in the same manner as the POM and budget, with the exception that all deficiencies (requests for additional money) are compared to obligation rates. Money is shifted between commands based on the strength of the justifications for their deficiencies and the credibility of the command (if a command has a good record of past obligation and accurate numbers, low obligation rates with deficiencies do not automatically mean a reduction in funds or a refusal of extra funding). Additional funds are requested from CMC only as last resort, after all other options are exhausted.[70]

As a note on budget control and execution in FMFPac, it should be noted that in addition to the controls inherent in the system, the Commanding General, FMFPac, has established a zero deficiency policy, within ceiling, for material readiness. Failure to achieve this goal is considered a violation of monetary policy. This has the effect of ensuring a commander has 100 percent of his table of authorized equipment on hand, in

[70] Telephone interview with Major J. Cargill, 4 April, 1986.

a serviceable condition.[71] The effect of this is to slant the management of financial resources to ensure that deficiencies in material readiness do not exist during midyear review. This is often accomplished at the expense of other categories, such as training and operations. In order to meet the requirement for zero deficiencies in material readiness within ceiling, a commander will often move money from one area to another.

(2) First Marine Brigade (1st MAB)

(a) The Program Objective Memorandum (POM). The Budget control process in the 1st Marine Amhpibious Brigade begins with the development of local guidance for its subordinate commands. Despite its location (in Hawaii), guidance from higher headquarters is often not timely and the MAB, to meet the traditional deadline required by FMFPac, is forced to publish its own well in advance of the offical guidance. The guidance is usually based on past ceilings and deadlines from FMFPac, adjusted for the current local situation. In the 1st MAB, the scope of the POM is such that the Brigade is concerned with any new or expanded programs and their effect on the Brigade as a whole. As such, the input requested is primarily intended to identify any deficiencies that will develop as a result of proposed or e>panded programs.

When the POM input is received from the the MAB's subordinate commands, it is checked for accuracy, validity, and conformity with the guidance issued. The information is then staffed through the

71 Commanding General, Fleet Marine Force Pacific's letter, 12/lap: 7000: "Policy on Material Readiness and Deficiency Limits", dated 27 January, 1982.

decision unit sponsors for their comments. During this process, descrepancies with any deficiencies are referred back to the originating command by the decision unit sponsor for clarification or additional references. Once the problem is resolved, the deficiencies are prioritized by the decision unit sponsors and the input is returned to the budget office.

After this review by the decision unit sponsors, the budget office compiles the input into a rough draft of the POM and staffs it through the general staff for their comments (this is usually done about a week prior to submission of the final POM document to FMFPac). Their recommendations are incorporated, a cover letter is prepared and a smooth copy of the proposed POM is briefed to the Commanding General, the primary staff, and the commanders of the subordinate commands. Based on their input, final changes are made to the POM and it is signed by the general. The completed POM is then forwarded to FMFPac for inclusion in its POM input to CMC.

(b) Budget Formulation. As with the POM, budget formulation guidance from higher headquarters is seldom timely, so the Brigade is forced by time constraints to generate its own guidance. Based on last year's guidance from FMFPac (and any information they have been able to get from FMFPac via telephone), this guidance is published in early January, with a due date of late February. This ensures that its subordinate commands have enough time to prepare meaningful input. Unfortunately, this lack of timely guidance can at times create a "no win" situation for the Brigade. If it doesn't develop and issue its own guidance in a timely manner, then there is not enough time for the subordinate units to do the research

necessary to accurately reflect the condition of the MAB. If the MAB publishes guidance early, before it receives the offical guidance from FMFPac, then it runs the risk of having the input it has developed not fitting the requirements established by FMFPac, in which case the budget must be reworked and the earlier effort is wasted.

When the subordinate commands submit their input, it is processed in much the same manner as the POM. It is routed to the decision unit sponsors, where recommendations are made, exhibits prepared, and descrepancies with the input rectified. The information is then compiled, by the budget office, with exhibits, into a rough budget and staffed through the general staff. It is at this point that additional clarification and fine tuning of the information occurs and the budget is molded into a smooth form. After review by the general staff, a cover letter is prepared and the information, now compiled as the budget, is briefed to the Commanding General, signed, and forwarded to FMFPac for inclusion in its budget input to CMC.

(c) Budget Execution. Budget execution control begins in September with the submission of a spending plan by each of the subordinate commands in the 1st MAB. They are checked to ensure they meet the obligation requirement previously established by the comptroller for the execution of the forthcoming fiscal year. The Brigade then issues funding authority to the subordinate commands, broken down by quarter, in accordance with the spending plans submitted.

Execution of the spending plan is monitored through the use of the weekly command status of funds report, the monthly performance

statement (NAVMC 10890 - both of these reports are available through the Marine Air/Ground Financial Accounting and Reporting System [MAGFARS]), and the weekly available balance report (a local report generated on the local level). The command status of funds report is used to monitor undelivered orders and the order cancellation rate, while the 10890 is used to monitor the obligation rate of each subordinate command in the Brigade with obligational authority. Both of these reports are reconciled with the available balance report to get a complete picture of the status of each command's obligations and cancellations. The sum of the available balance reports for any given month should match the total on the monthly 10890 (less those transactions not yet in the system, yet reflected in the available balance report), while the command status of funds report provides a picture of the individual obligation pattern through undelivered orders and the cancellation of obligations. Thus if a command tries to artificially inflate their obligation rate through obligations and subsquent cancellations, a pattern will develop when the reports are compared (usually noticed in the timing of the obligation cancellations and the decision unit they occur in).

This method of monitoring the obligation rate, combined with the Brigade's liberal policy of realigning funds to cover deficiencies, has generated a willingness on the part of their subordinate commands to return money to the Brigade at the end of each month if their obligation rate is low and they cannot obligate it. This willingness to relinquish money at the end of each month is strongly reinforced by the emphasis placed by the Commanding General on the importance of a

commands obligation rate. During the general's weekly commanders conference, the comptroller briefs the general on the obligation rates of the commands and at least once a quarter, the obligation rates of all the commands are presented during the conference. In this manner commands with low obligation rates are encouraged to return their excess funds not only through fear of drawing the general's attention to them, but also by peer pressure. They know not only which of their peers are short of funds and could use their excess, but also that their peers know if they have an excess.

In addition to the importance placed on the obligation rate through the commander's conference, it is further reinforced by the role it plays during the annual midyear review. During midyear review, the subordinate commands review their spending plans and requirements, based on guidance received from the Brigade. This guidance, usually based on FMFPac's guidance from the previous year (as amended for current circumstances), is issued in the absence of timely information from FMFPac. As in the other units throughout FMFPac, the policy of "zero deficiencies in material readiness" determines for the most part those areas where deficiencies will occur. The only deficiencies allowed in material readiness are those in support of new initiatives mandated by higher headquarters.

When the input from their subordinate commands is received, the budget office processes it in the same manner as the POM and budget, with one exception. When the deficiencies are reviewed for validity, the obligation rate of the submitting command is taken into account. If a command with a low obligation rate submits a deficiency, not matter how

justified, it will be given hard scrutiny before it will be funded or included in the midyear review.

Following the review of the input by the budget office, the information is staffed through the decision unit sponsors for their input. They resolve any questions about the validity of a deficiency and prioritize those found to be acceptable. The package is then returned to the budget office and their recommendations are incorporated. Those deficiencies that are of the highest priority are funded through a realignment of internal funds (i.e. money is taken from those units with a low obligation rate) and the rest are put into a rough midyear review format and then staffed through the primary staff for their comments (this normally occurs about a week before the package is due at FMFPac). At this time the information is reviewed and final changes are recommended. After their review, a cover letter is attached and the entire package is briefed to the Commanding General, the primary staff, and the commanders of the subordinate commands. It is then, following signature by the general, forwarded to FMFPac for inclusion in its midyear review.[72]

b. Fleet Marine Forces, Eastern Pacific (WESTPAC)

(1) The First Marine Division

(a) The Program Objective Memorandum (POM). The control process at the major subordinate command level in WESTPAC begins with the POM process. In the First Marine Division, this process is not begun prior to the receipt of the offical guidance from higher headquarters. Unfortunately, this guidance is often slow in arriving and the delay creates

[72] Telephone interview with Lieutenant Mellon on 1 May, 1986.

timing problems for the cost centers. In an attempt to reduce the hardship created by this timing problem, as soon as the guidance is received, it is forwarded to the cost centers for their input.

The POM guidance issued by the Division is concerned with new initiative and deficiencies in existing programs. Of special importance is the identification of the financial resources necessary to support new initiatives generated by CMC (such as the reorganization of the infantry battalions). These programs, while initiated by CMC, are often conducted with out the benefit of in depth financial guidance or support from higher headquarters. This puts the burden of accurately forecasting the needs and requirements of the initiative directly on the comptroller, who has to rely on the input of the cost centers (commanders) responsible for these projects. This lack of financial guidance, combined with the lack of time available for the cost centers to develop their input, makes it difficult to accurately forecast the POM.

Once the input is received from the cost centers, there is generally not enough time to completely staff the information through normal channels. In the time remaining, the input is checked for accuracy (addition errors) and format. The deficiencies are examined for justification and ranked according to impact on the Division. Time permitting, they are staffed through the G-4 for comment and remarks. Following this, the POM is compiled, a cover letter put on it, and it is briefed to the primary staff and the Commanding General. After the comments and recommendations of the general and the staff have been

incorporated into the POM, it is returned to the general for signature. After it has been signed, it is forwarded to FMFPac.

(b) Budget Formulation. As with the POM process, the Division waits for guidance from FMFPac before it issues its own guidance concerning budget formulation. Again, because of the delay incurred by waiting, the command and its cost centers are handicapped by a lack of time to develop meaningful input. As a result, the numbers that are received from the cost centers are hastily derived and it is very difficult to quantify the deficiencies.

Once the input is received from the cost centers, it is processed in the same manner as the POM. It is reviewed for accuracy and format, the required exhibits are prepared, and, time permitting, a preliminary budget is staffed. At a minimum, the budget is staffed through the G-4 for comments and recommendations. After the budget has been compiled (and sometimes staffed), a cover letter is prepared and it is briefed as the POM was. Upon approval by the Commanding General, the budget is signed (by the general) and forwarded to FMFPac.

(c) Budget Execution. Control of budget execution in the First Marine Division begins with a review of the budget submissions of the cost centers just prior to the beginning of the fiscal year. At that point they are asked to identify any changes in their needs and they submit their financial plans. After the receipt of obligational authority and the issuance of funding authority by the Division, control is exercised through the use of obligation rates, the monitoring of the 10890 report, the weekly available balance report, and monthly commanders conferences.

When the funds are allocated to the cost centers, the authorization is broken down by quarters, with a set amount authorized for obligation in each quarter. This quarterly amount is used as the basis of the mandatory obligation rate. In the First Marine Division, the required obligation rate is 95 percent. It is monitored through the use of internal (weekly available balance reports) and external (NAVMC 10890) reports.

As each cost center obligates its funds, the transactions are recorded by the Marine Air/Ground Financial Accounting and Reporting System (MAGFARS) and a monthly total is compiled by the Consolidated Fiscal Accounting Office (CFAO). The information contained within the system is augmented through a weekly reconciliation of memorandum records between the CFAO and each cost center. This information is prepared monthly in the form of a 10890 report and forwarded to the Division, its cost centers, FMFPac, and Headquarters Marine Corps (the 10890 prepared for Higher headquarters does not contain the information broken out by cost center - the report sent to the Division does). The weekly available balance report shows the remaining balance available to each cost center and it enables the Division to track those obligations that have not yet been input into the MAGFARS. Together, these two reports are used by the Division to get an accurate picture of the obligation rate of each of its cost centers and thus manage its total obligation rate.

The importance of the obligation rate is especially apparent during the annual midyear review. The process is begun by the Division immediately following the completion of its POM. At that time the

division reviews its command plan and each cost center reviews its individual budget for deficiencies, ensuring it is in compliance with the FMFPac policy of zero deficiencies in material readiness. This policy mandates that all deficiencies in material readiness must be funded out of current funds, even if it means cutting back on training and operations. As a result, the cost centers (and Division) fund their highest priority items first, then continue down the list, funding lower priority items until they run out of money. At that point, they submit the remaining items (almost always deficiencies in training and operations or initial purchase of equipment, since to have a deficiency in material readiness is a violation of monetary policy) as unfunded deficiencies. On the Division level, funding of these deficiencies will depend on the cost center's obligation rate, the strength of its justification, whether or not the deficiency has previously been included in the unit's base, and the availability of the cost center's funds. If a cost center has a low obligation rate, it not only does not get funding for its deficiencies, it often has its funding base reduced to fund the deficiencies of other cost centers. Conversely, if a cost center has a high obligation rate and it has requested a realignment of funds from other quarters to cover its current needs, its deficiencies will be recognized (provided they were not previously funded in the units base) and either funded through an internal realignment of Division funds, or submitted as a part of the Division's midyear review for funding by FMFPac. The only exception to this policy are deficiencies that are the result of new initiatives imposed by higher headquarters. They are recognized as being

valid deficiencies beyond the control of the cost centers and they are routinely funded or included in the Division's midyear review submission.

Once the input has been received from the cost centers by the Division, the same process is followed that is used for the POM and budget. The input is examined for accuracy and deficiencies are screened for justification and compliance with FMFPac's policy on material readiness. Weak justifications are verified and quantified by the budget officer, and the results are staffed through the G-4. After the comments and recommendations of the G-4 have been received, the input is compiled, a cover letter prepared and it is briefed to the primary staff and the Commanding General. After the general has signed it, it is forwarded to FMFPac as the midyear review for the First Marine Division.

Finally, in the First Marine Division, the usefulness of obligation rates as an budget execution control mechanism is enhanced through the medium of the monthly Commanding General's commanders conference. During these conferences, the individual obligation rates of the cost centers are presented to the general and the commanders at the conference. This has the effect of reinforcing the concept of the financial responsibility inherent in the subordinate to superior relationship.[73]

(2) The First Force Service Support Group (First FSSG)

(a) The Program Objective Memorandum (POM). In the First FSSG, in an attempt to meet the historical deadline for submission, the POM process is begun prior to the receipt of guidance from FMFPac. The FSSG prepares its guidance based on past POM guidance and any new developments

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[73] Telephone interview with Lieutenant Colonel R. Patrow, 6 March, 1986.

that it feels will have an impact on its current programs. This guidance is distributed in the last part of November, for input by the end of December. The First FSSG's POM is due to FMFPac by the second week of January.

As a result of this time factor, and partially because of the unique nature of the FSSG (it is composed of support units that are for the most part supply oriented and there is a close relationship between the units and the FSSG headquarters element), the POM in the First FSSG is done entirely "in house" at the FSSG level. When the guidance is prepared it is issued to the decision unit sponsors and they prepare the necessary input. After they have submitted their input, the budget officer reviews it for consistency with the guidance and validity of deficiency justification. If there is a conflict, the budget officer contacts the appropriate decision unit sponsor and requests additional justification or input. After all of the deficiencies have been verified and quantified, the budget officer assigns priorities to the acceptable and defendable deficiencies and consolidates the POM into the proper format. Once it is in proper format, a cover letter is attached and the POM is restaffed through the decision unit sponsors for comment and approval. They make their final recommendations and the POM is adjusted as necessary. It is then briefed to the Commanding General for approval and signature. Following signature, the POM is forwarded to FMFPac.

(b) Budget Formulation. Budget formulation in the First FSSG, in contrast to the POM process, includes input from the cost centers. Guidance is developed based on historical data and any advance guidance made available through the annual FMFPac conference. In the event the

ceilings issued by the FSSG are not close when the guidance from FMFPac is received, the input of the cost centers is adjusted at the FSSG level, usually by a flat percentage across the board.

During the budget formulation process, due to the lack of financial experience of most of the fund administrators, and the resulting uncertainty of the budgets requested, the FSSG is primarily looking for deficiencies over and above assigned ceilings. When the input is received from the fund administrators, it is processed in much the same manner as the POM. It is routed to the decision unit sponsors for verification and comments, and adjusted to reflect their input. In the case where the unfunded deficiencies input by a commander conflict with what a decision unit sponsor thinks is appropriate or justifiable, the decision unit sponsor will contact the commander and request more information. In the event the issue cannot be resolved, the decision unit sponsor has the last word.

Once the decision unit sponsors have reviewed the input and added the required exhibits and made the necessary adjustments, the input is consolidated by the budget officer into the proper format. A cover letter is added and the budget is then briefed to the Commanding General for approval and signature. Following signature by the general, the budget is forwarded to FMFPac.

(c) Budget Execution. Budget execution control in the First FSSG begins just prior to the beginning of the new fiscal year. At that time the fund administrators are asked to review their financial plans for major changes and submit revised spending plans (if necessary) to the FSSG. The FSSG issues annual obligational authority, broken out by quarter, to each

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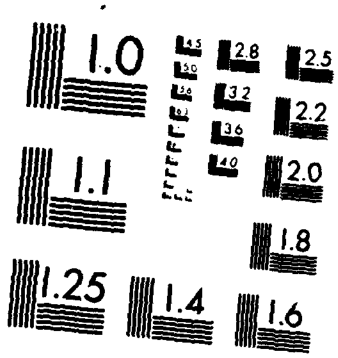

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cost center based on their spending plan. The budget office controls reimbursables, third and fourth level maintenance, exercises, contracts that are universal in nature (such as copiers and magazine subscriptions), and all open purchases. An obligation rate is set by quarter for the first three quarters, and by month for the fourth quarter. This obligation rate is checked through the use of the command status of funds report (weekly), and the 10890 (monthly). If a cost center falls below the required obligation rate, its memorandum records are examined and a weekly status of funds (available balance report) is required from the unit so that their pending obligations can be checked against the offical accounting records (command status of funds report and 10890).

At midyear review, the obligation rate is central in determining funding for deficiencies. During the process, the FSSG issues guidance (based on advance guidance issued during the FMFPac conference, an advance copy of the Field Budget Guidance from CMC, and the current situation in the FSSG) to its cost centers asking for unfunded deficiencies with narrative justification and references.

In the First FSSG, as in the rest of FMFPac, there is no such thing as an unfunded deficiency in material readiness. Therefore, the unfunded deficiencies input by most of the cost centers are training related (usually the first decision unit reduced to fund material readiness is training and operations). The cost center's obligation rate is used as a judge of the validity of its requests. No matter what the deficiency is (to include material readiness deficiencies due to new initiatives input by higher

headquarters), if the originating cost center's obligation rate is low, it will not be funded or included in the FSSG's midyear review request.

When the input is received by the FSSG, it is processed in exactly the same way as the input from the other phases of the financial cycle. The deficiencies and their narrative justification and references are staffed through the decision unit sponsors for verification and review, and following the addition of their recommendations, the input is consolidated into proper format by the budget office. A cover letter is attached and the midyear review is briefed to the Commanding General for comments and signature. Following signature by the general, it is forwarded to FMFPac for inclusion in its midyear review.[74]

(3) The Third Marine Aircraft Wing (Third MAW)

(a) The Program Objective Memorandum. In the Third Marine Aircraft Wing, the POM process is begun by the first of December. In an attempt to give their cost centers enough time to develop meaningful input, the Third MAW develops and issues its guidance well before they receive any guidance from FMFPac. The ceilings and deadlines issued to its cost centers are based on the previous guidance from FMFPac, the current situation, and an educated guess as to what the guidance will be from FMFPac. When the guidance from FMFPac is received, any necessary adjustments to the POM input that has already been received is made at the Wing level, by a flat percentage, across the board.

Once the input from the cost centers is received, the budget office examines it for consistency with the guidance, format, and

74 Telephone interview with Captain Sweat, budget officer, First Force Service Support Group, on 7 March, 1986.

justification of deficiencies. In some areas, the decision unit sponsors are contacted for their input, but in most cases, the deficiencies are verified and assigned priority by the budget office with little input from the decision unit sponsors. Once the deficiencies have been verified and priorities assigned, the POM is compiled in proper format, a cover letter is drafted expressing the Commanding General's concerns, and the entire package is briefed to the general and the primary staff. Following the brief, any necessary changes are incorporated into the POM and it is returned to the general for signature. After it is signed, the POM is forwarded to FMFPac for inclusion in its POM submission to the Commandant of the Marine Corps.

(b) Budget Formulation. Budget formulation follows the same process as the POM. Budget guidance is issued based on past performance and current fiscal conditions in the Wing, and the input is adjusted as necessary when the guidance from FMFPac is received. Each unit budgets for its temporary additional duty (TAD) requirements and its PE, and RA. When the Wing receives input from its fund administrators, it is verified for consistency with the guidance, proper format, and justification of their unfunded deficiencies. The decision unit sponsors are contacted in those areas requiring special exhibits and their input is solicited, combined with the other information, and the budget is compiled. Once again, as in the POM process, the budget is mostly prepared "in house" in the budget office. After it has been compiled in the proper format with the required exhibits, a cover letter is attached, reflecting the Commanding General's views and concerns. The budget is then briefed to the general and the

primary staff and group commanders. Following the inclusion of any necessary changes resulting from the brief, the budget is signed by the Commanding General and forwarded to FMFPac for inclusion in its budget.

(c) Budget Execution. Budget execution control begins in the Third Marine Aircraft Wing just prior to receipt of its new obligational authority. At that time, the Wing requests that its fund administrators review and revise their proposed spending plan for the new fiscal year. These revised spending plans become the basis for the division of the new obligational authority received by the Wing. It allocates annual obligational authority, broken down by quarter, to each fund administrator based on its revised spending plan. The Wing monitors the execution of the spending plans of its fund administrators through the imposition of a mandatory monthly obligation rate for requisitional authority (RA). The obligation rate for PE is based on the PE obligation rate mandated by FMFPac for the Wing. However, the PE obligation rate is not passed down to the cost centers until the third quarter. Prior to that, the continuing resolution that is usually in effect, and the corresponding uncertainty it generates, forces the Wing to manage the obligation rate at its level.

This use of an obligation rate to control the execution of the budget is monitored through the use of the command status of funds report, as reconciled with the cost center's pending obligations (usually done through a reconciliation of the memorandum records of the cost centers with the command status of funds report). The performance statement (NAVMC 10890) is not used except for historical purposes. If the obligation rate of a cost center, as reflected by the command status of

funds report, is low, the budget officer will contact the fund administrator to determine if a problem exists. In extreme cases, money may be taken from a fund administrator because it was unable to maintain an adequate obligation rate. This is most likely to occur following midyear review and at the end of the third quarter.

The obligation rate plays a significant part during the annual midyear review process. At that time, the fund administrators are tasked with examining their spending plans and identifying those areas where they will not have enough money to meet their objectives (unfunded deficiencies). They submit these deficiencies, with narrative justification and references, to the Wing. At this point, the same process is followed that is used during the POM and budget formulation. The budget office reviews the input for validity of justification and consistency with the guidance issued. In some areas, the deficiencies are staffed through the decision unit sponsors for their input. If, during this process, a deficiency is found to have been submitted by a cost center with a low obligation rate, it is, except in rare cases, automatically rejected.

Once the valid unfunded deficiencies have been identified, they are prioritized by the budget office and as many as possible are funded through a realignment of internal funds. Here again, a cost center's obligation rate can play an important part. If a cost center has an extremely low obligation rate without adequate justification for it, they are in danger of having their base reduced to provide funds for the deficiencies of other cost centers. After all of the available funds have been realigned, the remaining unfunded deficiencies are compiled into the

proper format with the required exhibits and a cover letter is attached. The midyear review is then briefed to the Commanding General, the primary staff, and the group commanders. After their recommendations have been incorporated and the midyear review has been signed by the general, it is forwarded to FMFPac for inclusion in its midyear review.[75]

(4) Seventh Marine Amphibious Brigade (Seventh MAB)

(a) The Program Objective Memorandum (POM). In the Seventh MAB, the budget control process begins with the POM process in early December. Lacking guidance from higher headquarters, the Seventh MAB formulates its own guidance based on prior year's exhibits and ceilings, modified for the current local fiscal situation. This guidance is issued to the cost centers in the first week of December to ensure they have enough time to develop meaningful input. This has on occasion caused some extra work for the MAB, in the form a revision of the input. Often the input from the cost centers is received and the POM is compiled before the guidance from FMFPac is received. If the local guidance issued by the MAB does not match the guidance from FMFPac, then the input must be adjusted. This is usually done across the board, on a flat percentage basis, at the MAB level.

Once the input is received, it is checked for accuracy, validity (often the cost centers input new programs or unfunded deficiencies that do not fall within the scope of the Operations and Maintenance, Marine Corps, POM) and consistency with the guidance. The deficiencies are divided into two categories, those from the Seventh MAB,

[75] Telephone interview with Captain R. A. Roe, Budget Officer, Third Marine Aircraft Wing, on 6 March, 1986.

and those from the 27th Marines (the infantry element of the Seventh MAB). Deficiencies from the Seventh MAB are assigned priorities by the budget office, and those from the 27th Marines are asssigned by that command. The input is then compiled and staffed through the POM Review Board for their comments and recommendations. After the input has been adjusted to reflect the review board's recommendations, it is put into the proper format, a cover letter prepared, and it is briefed to the Commanding General, his primary staff, and the Commanding Officers of those units that receive funds from the Seventh MAB. After the POM has been signed by the general, it is forwarded to FMFPac for inclusion in its POM.

(b) Budget Formulation. Budget formulation in the Seventh MAB is based on guidance developed locally by the MAB. In the absence of timely guidance from higher headquarters, the MAB formulates guidance based on its POM. It takes the input it developed for its POM, adjusts it for current operational realities, and uses the results to establish ceilings for its cost centers. The deadline for submission is formulated based on the past requirements from higher headquarters.

Following receipt of the budget requests from its cost centers, the budget office follows the same process as it did for the POM. The input is screened for accuracy, validity, and conformance with the guidance issued. It is then staffed through the POM Review Board (the POM Review Board is composed of the decision unit sponsors) for their comments and the input of their necessary exhibits and recommendations.. After the input has been reviewed and the necessary changes made, the budget request is put into the proper format, a cover letter prepared and it is staffed

through the Chief of Staff. Following his approval, the budget is briefed to the Commanding General, his primary staff, and the principle fund administrators. Once the document has been signed, it is forwarded to FMFPac for inclusion in its annual budget.

(c) Budget Execution. Budget execution in the Seventh MAB is controlled through the use of obligation rates. Budget execution begins with a review of the spending plans that had been submitted earlier by the fund administrators. They are asked to identify any changes in the composition of their funds required by the current operational environment. If the obligational authority requested by the MAB is received, then the new obligational authority is issued, broken down by quarter, to the fund administrators in the amount and configuration (percentage of PE and RA) they requested in their annual spending plan. If there is a variance between the amount received and the amount requested, the change is reflected equally in the obligational authority granted to the cost centers.

After the obligational authority has been issued, control of the execution of the funds is through the use of obligation rates set to ensure that the MAB is in conformance with the obligation rates established for it by FMFPac. Conformance with the obligation rate is monitored through the use of a weekly local report, the status of funds report and the monthly performance statement (generated through the Marine Air/Ground Financial Accounting and Reporting System [MAGFARS]). The status of funds report is a weekly accounting of the funds available for obligation, by cost center. It shows the current amount of obligations and the amount of funds remaining for obligation. It is based on the

memorandum records kept by each fund administrator and is not dependent on input from the MAGFARS. As a cross check, the 10890 is used to compare obligations on a monthly basis. The amount of obligations reflected in the 10890 for a particular cost center should equal the sum of the weekly status of funds reports for that month, less those items that have not been entered into the system (traditionally, the 10890 lags actual obligations by about 10 days).

These reports are used in conjunction with each other to spot trends in a cost center's obligation rate or particular problems that may have an adverse effect on the MAB's obligation rate (such as a purchase for $100.00 being erroneously entered as $100,000.00). When a cost center begins to show signs of a flagging obligation rate, the budget officer contacts the fund administrator and trys to determine what the problem is. In most cases, if a cost center has a low obligation rate, money is moved from one quarter to another, and the fund administrators spending plan is adjusted so that it is in line with the required obligation rate. Very seldom are funds taken from a fund administrator because of a poor obligation record.

This policy of moving funds from one quarter to another to keep the obligation rate up can result in a sort of "double jeopardy" during midyear review. At that time, the MAB issues local financial guidance based on past ceilings from FMFPac, as adjusted for local conditions. The Fund Administrators are asked to review their requirements for the remainder of the year and submit those deficiencies they are not able to fund. The FMFPac policy of "zero deficiencies in material readiness" forces fund

administrators to fund those deficiencies in material readiness from internal sources, within ceiling. As a result, those deficiencies that are submitted are usually in the areas of training, operations, administration, and the purchase of equipment.[76]

These deficiencies are processed in the same manner as the input from the POM and budget, with one exception. When the they are screened for validity, the obligation rate of the submitting unit is used as means of evaluating the validity of the request. If a fund administrator with a low obligation rate submits an unfunded deficiency, the chances of the deficiency being funded are slim. The feeling is that failure to meet the obligation rate indicates too much money--a problem usually cured by a reduction, not an increase in the funding base. Combined with the fact that every effort is made to fund as many of the deficiencies as possible by realigning funds within the MAB, this attitude makes the fund administrator with a low obligation rate a prime source of funds for those high priority deficiencies submitted by other cost centers. The net result is that a low obligation rate can result in double jeopardy. Not only does the fund administrator with a low obligation rate face the prospect of not being able to get additional funding, he also faces the prospect of losing money to cover the deficiencies of other cost centers.

After being reviewed for validity, accuracy, and consistency, the unfunded deficiencies that remain are assigned priorties by the budget office, compiled into a rough format and staffed through the POM

76 United States Marine Corps, Seventh Marine Amphibious Brigade, "Fiscal Year 1985 Operation and Maintenance, Marine Corps, Midyear Review", dated 25 January, 1985.

Review Board for comments and input. Following review, the input is compiled in the proper format with the required exhibits, a cover letter is prepared and it is briefed to the Commanding General, his primary staff officers, and his subordinate commanders. After the incorporation of the necessary changes, and the general has signed it, the midyear review is forwarded to FMFPac for inclusion in its midyear review submission to CMC.[78]

c. Fleet Marine Forces Western Pacific (WESTPAC)

(1) The Third Marine Division (Third MARDIV)

(a) The Program Objective Memorandum (POM). In the Third Marine Division, budget control begins with the POM process. To ensure that its cost centers have enough time to prepare accurate input and it has enough time to process it, the Division prepares and issues local POM guidance well before any guidance is received from FMFPac. It is usually based on the previous year's POM guidance from FMFPac, as amended for local circumstances, and it establishes ceilings and deadlines for submission of the cost center's POM input.

When the input is received, it is put into the proper format by the budget office and then routed through the staff sections for their comments and recommendations. They check the input for validity, credibility and conformance with the guidance. The staff sections resolve any questions concerning the validity of a deficiency through direct contact with the fund administrator who submitted the deficiency. Once the

78 Telephone interview with Major Sprute, budget officer for the Seventh MAB, on 4 March, 1986.

deficiencies have been substantiated, they assign priorities to the valid deficiencies. Following this process, the budget office puts the POM in the proper format, a cover letter is attached, and the Commanding General and the primary staff are briefed. After the Commanding General approves the POM (signs it), it is forwarded to FMFPac for inclusion in its POM input to CMC.

(b) Budget Formulation. Like the POM, budget formulation guidance in the Third MARDIV is issued well before guidance from FMFPac is received. It is based on the previous year's guidance from FMFPac and the local situation. To avoid the pitfall inherent in issuing guidance early (having to repeat the budget process over again when the offical guidance from higher headquarters does not match the local guidance), the ceilings issued are very conservative and the cost centers are asked to submit their input apportioned by decision unit.

When the input from the cost centers is received, the budget office reviews the input for consistency with the guidance, accuracy, and the validity of unfunded requirements. The base funding level is checked and the ceilings are assigned priorities. Everything requested that is over a ceiling is considered an unfunded deficiency, and when the guidance from FMFPac is received, the excess of funds over the local ceilings is applied to these deficiencies, by ceiling priority.

Once this process is complete, this information is combined with the required exhibits, put in the proper budget format, and routed through the staff for their comments and recommendations. After they have provided their input, a cover letter is attached and the budget

package is briefed to the Commanding General and the primary staff officers. Upon his approval (signature) the budget is forwarded to FMFPac for inclusion in its budget submission to CMC.

(c) Budget Execution. The Third MARDIV controls budget execution through the use of a mandatory obligation rate. Each quarter a message is sent to each cost center reminding the fund administrator of the obligation rate requirement and the alternatives available, should there be a problem attaining the required rate. The alternatives are to 1) reprogram funds into other decision units, 2) realign money from one quarter to another, and 3) turn money back into the Division. Failure to maintain an 85 percent obligation rate results in the loss of those funds over the obligated balance.

The use of an obligation rate to control budget execution is monitored through the use of a weekly cost center briefing and the performance statement. Weekly, the cost centers brief the budget officer on the status of their accounts. Particular attention is paid to the pending documents as the cost center's over all obligation rate is compared with that reflected in the performance statement (NAVMC 10890). This gives a truer picture of what the actual obligation rates are, vice what is reported through the 10890.

During the midyear review, the obligation rate plays a pivotal role in determining if a cost center is to obtain additional funding. During November, the Division sends out its local guidance, establishing ceilings and deadlines for submissions. Additionally, it contains an explanation of what the priorities of deficiencies are, a reminder that a

cost center must have an 85 percent obligation rate to be considered for additional funding, and a restatement of the standing guidance from the Commanding General FMFPac that here will be no deficiencies in material readiness. The cost centers are instructed to review their spending plans and submit those things that are new initiatives or expanded programs that will require additional funding. As this information is submitted by the cost centers, it is screened for validity, accuracy, and consistency with the guidance, in conjunction with their obligation rates. For a deficiency to be considered, the cost center must not only have at least an 85 percent obligation rate, the obligation must be in high priority items.

Once the deficiencies have been checked for validity and compared to the cost center's obligation rate, of those that were considered valid, as many as possible are funded through an internal realignment of funds . The rest are put into the proper midyear review format and briefed to the Commanding General and the primary staff. After the general has approved it (signed it), the midyear review is forwarded to FMFPac for funding or inclusion in its midyear review submission to CMC.[79]

(2). The Third Force Service Support Group (Third FSSG)

(a) <u>The Program Objective Memorandum (POM)</u>. Budget control in the Third FSSG begins with the formulation of the POM. The process is begun with the FSSG developing and issuing their own guidance based on the past guidance from FMFPac and a number of assumptions about the local situation and their likely effect on the operations of the FSSG.

79 Telephone interview with Captain Henderson, budget officer, Third Marine Division, 1 May, 1986.

Current guidance from FMFPac is usually not available in a timely fashion during the POM process. It usually filters in after the cost centers have submitted their input, and the necessary changes are made at the FSSG level so as to be in compliance with the guidance from FMFPac.

When the input is received, it is processed almost entirely by the budget office. They review the input for validity, accuracy, and consistency with the guidance issued, resolve any conflicts over questionable deficiencies, prioritize the valid deficiencies, and put the POM into the proper format. The various staff heads are then asked for their comments and recommendations. Because of the nature of the organization (most of the personnel in the FSSG are there for only on year at a time, then they rotate back to the United States so there is almost no corporate memory at that level), decision unit sponsors are not used, and the input from the staff is often very limited in scope. For this reason, the main burden of the development of accurate POM input falls on the budget office.

Once all of the staff sections have been approached, and their comments and recommendations incorporated into the POM, a cover letter is prepared and the POM is briefed to the Commanding General and the primary staff. The recommendations that come out of the brief are incorporated, the POM is signed by the general, and it is forwarded to FMFPac for inclusion in its POM input to CMC.

(b) Budget Formulation. The budget formulation process in the FSSG is the same as the process outlined above. Guidance is prepared and issued, based on past requirements from FMFPac and several assumptions about the local fiscal environment, then issued to the cost centers in enough

time to allow them to develop their input. Here again, the FSSG is handicapped by the one year rotation policy. In most cases, the fund administrator at the cost center level is a relatively junior Lieutenant supply officer, who has little if any experience with fiscal matters. Combined with the lack of corporate memory (they rotate after one year back to the United States), this lack of experience often leads to cost center budgets input based on last year's budget, plus ten percent for inflation.

When this information is received by the budget office, the input is carefully checked for accuracy, validity and consistency with the guidance issued. The budget office concentrates more on the deficiencies identified, rather than the total figures submitted. The lack of experience and corporate memory at the cost center level makes all the input from that level suspect. Accordingly, the amounts of the budgets are pretty much established by the ceilings issued earlier in the FSSG's budget guidance.

Once the numbers have been reconciled, verified, and combined with the required exhibits, in the proper budget format, the staff sections are approached for their input and comments. Following their review, a cover letter is prepared and the budget is briefed to the Commanding General, the primary staff officers, and the various commanding officers within the FSSG who have obligational authority. After the budget has been approved by the Commanding General (signed), it is forwarded to FMFPac for inclusion in its budget submission to CMC.

(c) Budget Execution. In the Third FSSG, the operational phrase used in budget execution control is "obligation rate". It is the driving

force behind the execution of the budget in the FSSG. Just prior to the beginning of the new fiscal year, the FSSG has their fund administrators update their spending plans for any changes that may have occurred since they were submitted. Once that is done, new obligational authority is issued to the fund administrators, broken down by quarter, in the amounts and proportions (of PE to RA) requested in their revised spending plans. As the cost centers obligate their funds, their obligation rate is monitored through the use to the command status of funds report and the weekly available balance report. The command status of funds report shows the undelivered orders and cancellations made during a given period (weekly), along with the remaining balance, as recorded in the Marine Air/Ground Financial Accounting and Reporting System (MAGFARS), by command. This report is reconciled with the local available balance report. It shows the available balance of each cost center and it includes those obligations that are made to purchase material and services from sources outside the supply system that would not be reflected in the command status of funds report. In this manner, the obligation rate of each command is monitored as they progress through the fiscal year. In the event a cost center has a low obligation rate, the budget office contacts the command and trys to help them bring their rate back in line with the established goal (this is important, because the FSSG is held responsible to FMFPac for its overall obligation rate. It has to formally explain to FMFPac, by message, whenever its overall rate falls below its established goal). Most commonly, when a cost center has a low obligation rate, funds are realigned from quarter to quarter and its spending plan adjusted to bring it back into compliance with

the established obligation rate. Despite the implied threat of losing funds because of a low obligation rate, a reduction to the funding base of a cost center because of a low obligation rate is almost unheard of.

The only exception to this policy of not reducing a cost center's funding base occurs during midyear review. At that time, in an attempt to give its cost centers time to develop their input, the FSSG publishes its guidance well before offical guidance is received from FMFPac, It is usually based on past FMFPac guidance that has been adjusted for the local fiscal environment. When the cost centers submit their input, it is reviewed by the budget office for validity, accuracy, and consistency with established guidance. It is at that time that a low obligation rate can hurt a cost center by reducing its chances of receiving additional funding for its deficiencies. While it is unlikely that a cost center will have its funding base directly reduced, a low obligation rate could result in a refusal by the FSSG to fund deficiencies submitted by the offending command. This has the same effect as a cut to the funding base of the cost center.

After the input is reviewed by the budget office, it is processed in the same manner as the POM and budget. The deficiencies are prioritized, arranged in the proper format, and a cover letter is attached. At that point, the applicable staff sections are approached for their input and comments. These are incorporated into the package and the whole thing is then briefed to the Commanding General and the principle staff. After the general has signed it, the midyear review is forwarded to FMFPac for inclusion in its midyear review submission to CMC.[80]

80 Telephone interview with Captain Lavoli, budget officer, Third Force Service Support Group, on 1 May, 1986.

(3) The First Marine Aircraft Wing (First Maw)

(a) The Program Objective Memorandum (POM). Budget control in the First MAW begins with the POM process. In the absence of formal guidance from FMFPac, the Wing puts out local guidance based on past POM guidance from FMFPac. This guidance consists of fiscal ceilings, a deadline for the submission of input, and information about present or proposed programs that may have an impact on the cost centers. When the cost centers submit their input, it is consolidated and staffed through the principle staff members (decision unit sponsors). They make recommendations based on their area of expertise and resolve any questions about the validity of a particular deficiency by contacting the submitting cost center for additional justification and references. Following their review, the deficiencies that were considered valid are prioritized by the assistant comptroller. The POM input is then put into the proper format and briefed at a meeting of the wing staff. After it has been adjusted for their input, a cover letter is prepared, attached to the package, and it is briefed to the Chief of Staff and the Commanding General. Following approval (signature) by the Commanding General, the POM is forwarded to FMFPac for inclusion in its POM submission to CMC.

(b) Budget Formulation. Budget formulation is accomplished in much the same manner as the POM. Due primarily to the timing of budget guidance from higher headquarters (both FMFPac and CMC), the Wing publishes local guidance based on the previous year's guidance from FMFPac and CMC, historcial data, and the local fiscal environment. The cost centers use this information to develop their budgets and spending

plans for the next fiscal year. When the input is received by the Wing it is reviewed by the budget office for accuracy and then sent to the principle staff members for comments and recommendations. They verify the unfunded deficiencies and provide input for the required exhibits. Following this review, the input is combined with the exhibits into the required budget format and it is briefed at a meeting of the wing staff. They make any recommendations or comments they feel are necessary, and the budget is adjusted accordingly. After their recommendations have been incorporated, a cover letter is added and the finished budget is briefed to the Commanding General and the Chief of Staff. Following signature by the Commanding General, the budget is forwarded to FMFPac for inclusion in its budget submission to CMC.

(c) Budget Execution. Budget execution control in the First MAW is accomplished primarily through the use of mandatory obligation rates and the midyear review. Prior to the beginning of the fiscal year, FMFPac notifies the Wing of the break down of the forth coming obligational authority (by proportion of RA and PE). The spending plans of the cost centers are adjusted as necessary to accommodate this ratio. When the new obligational authority is received, it is issued, broken down by quarter, to the cost centers. At the same time, the obligation rate for each quarter is determined and it is included in the funding authority.

To monitor the obligation rate, each unit submits a weekly obligation status report that shows their obligations, pending documents, and amount authorized for obligation. This information is reconciled with the command status of funds report, the financial

transaction journals and the performance statement (NAVMC 10890), to give an accurate picture of the obligation rate of each cost center. When it appears that a cost center is having trouble achieving the required obligation rate, the budget officer contacts the fund administrator and funds are either moved to another quarter or the cost center's funding base is reduced, depending on the justification for the low obligation rate.

The obligation rate is used, during midyear review, to determine which cost center's deficiencies are funded. In the midyear review process, the cost centers are required to examine their fiscal plans and, based on the funds available to them, determine those areas that will require additional funding. If a cost center's obligation rate is low, it is difficult to justify funding at an increased level. Additionally, since the Wing funds as much of its deficiencies as it can through a realignment of internal funds, a cost center with a low obligation rate is a prime candidate for a reduction in funds, even if it has identified deficiencies of its own.

The actual process of the midyear review is much the same as that used for the POM and budget. When the input is received at the Wing level, it is staffed through the principle staff members for their review and comments. They verify the validity of the deficiencies that have been submitted and resolve any conflicts over justification. The input is then put in the proper format and briefed to a meeting of the primary wing staff and group commanders. They determine the priority of the deficiencies and the budget office realigns funds as necessary to fund as many deficiencies as possible. The remaining unfunded deficiencies are

consolidated into the midyear review and briefed to the Commanding General and the Chief of Staff. After the general has approved (signed) it, the midyear review is forwarded to FMFPac for funding or input into its midyear review submission to CMC.[81]

C. CONCLUSION

Budget control and execution in the Fleet Marine Forces Pacific, like that found in the Fleet Marine Forces Atlantic, is an intergrated, coordinated system, built around a financial structure, with individual steps that occur in a regular cycle. The Program Objective Memorandum begins the cycle by creating a basis for the budget ceilings applied to the FMFPac budgeting process by Headquarters, Marine Corps. In turn, these ceilings are used as parameters within which FMFPac develops its Operation and Maintenance, Marine Corps, budget submission. The individual budget submissions of the major subordinate commands within FMFPac are based on ceilings intended to reflect these parameters. These budget submissions are the basis for the individual command's financial plan and, in aggregate, the FMFPac financial plan. Execution of the budget in FMFPac is based on these financial plans and controlled through the use of mandatory obligation rates (based on the obligation rate requirement established by CMC) that are derived from the financial plan. Monitoring of the obligation rate is accomplished through the use of reports generated by the Marine Air/Ground Financial Accounting and Reporting System (MAGFARS) and internally generated reports (available balance reports). In short, the programming step creates the basis for the

81 Telephone interview with Captain Bubp, budget officer, O&M, MC, budget, First Marine Aircraft Wing, on 7 March, 1986.

budget formulation step, which inturn provides control structure for the operation and measurement step, which provides data for the final step, reporting and evaluation.

This system of budget control and execution, while extremely effective in the fiscal environment it evolved in, does not provide the inherent structural strength or controls necessary to deal with the realities of budgeting or execution in the uncertain operational environment found in a unit as operationally and geographically diverse as FMFPac. This is clearly visible when the fiscal performance of FMFPac is examined. Figure 3-1 contains selected fiscal data from the major subordinate commands in FMFPac for FY 1985. It reflects the original budgets submitted, the level they were funded at (Command Plan), and their total obligations (RA and PE, less reimbursables) at the end of October, 1984, the end of April, 1985 (the midpoint of the fiscal year), and the end of September, 1985 (final close out). Comparison of the data given for each command, at the different times given, highlights the effects of the problems inherent in the current system of budget control and execution currently in use in FMFPac. On the average, every major command listed (and included in the scope of this thesis) exceeded its projected original budget by 61 percent (see Figure 3-1).[82]

These percentages, as revealing as they may be, reflect the efforts of the financial managers in FMFPac as they try to make the current system of budget control and execution support the operational realities of day to day operations in FMFPac. As a result, these numbers and percentages are

82 Fiscal year 1985 performance statements for the major subordinate commands in FMFPac included in this thesis.

Figure 3-1

Selected financial data for the major subordinate commands in FMFPac

UNIT	ORIG PLAN	CMD PLAN	TOTAL OBLIG	% CMD PLAN IS OF ORIG PLAN	% TOT OBLIG ARE OF CMD PLN
			OCTOBER 84		
1ST FSSG	21477700	52496330	2461679	244.42%	4.69%
1ST MARDIV	15479470	15468470	1238756	99.93%	8.01%
3RD MAW	13753600	13856600	1857186	100.75%	13.40%
7TH MAB	4792300	4792300	332836	100.00%	6.95%
3RD FSSG	20819554	43937500	5760815	211.04%	13.11%
3RD MARDIV	11819000	11844000	1229099	100.21%	10.38%
1ST MAW	11029500	11034500	2043758	100.05%	18.52%
1ST MAB	11279000	11279000	1814880	100.00%	16.09%
			APRIL 85		
1ST FSSG	21477700	56175213	36332556	261.55%	64.68%
1ST MARDIV	15479470	15796493	8868859	102.05%	56.14%
3RD MAW	13753600	15571300	10768144	113.22%	69.15%
7TH MAB	4792300	5877388	3205057	122.64%	54.53%
3RD FSSG	20819554	42935500	29054005	206.23%	67.67%
3RD MARDIV	11819000	12017000	6378994	101.68%	53.08%
1ST MAW	11029500	11312000	6231281	102.56%	55.09%
1ST MAB	11279000	17274550	10740681	153.16%	62.18%

Figure 3-1 continued

AUGUST 85

1ST FSSG					
RA	10970000	13818120	15145079		
PE	10507700	49558618	43787400		
TOTAL	21477700	63376738	58932479	295.08%	92.99%
1ST MARDIV					
RA	8123830	8946753	8273982		
PE	8355640	6901740	6292725		
TOTAL	16479470	15848493	14566707	96.17%	91.91%
3RD MAW					
RA	5723700	9223400	6183781		
PE	8029900	6419200	8175902		
TOTAL	13753600	15642600	14359683	113.73%	91.80%
7TH MAB					
RA	2521500	3264510	3040989		
PE	2270800	2561878	2422367		
TOTAL	4792300	5826388	5463356	121.58%	93.77%
3RD FSSG					
RA	10074000	10396980			
PE	37633195	35331938			
TOTAL	20819554	47707195	45728918	229.15%	95.85%
3RD MARDIV					
RA	7704000	7625643			
PE	4478500	4031342			
TOTAL	11819000	12182500	11656985	103.08%	95.69%
1ST MAW					
RA	5175500	4908403			
PE	5374500	5013391			
TOTAL	11029500	10550000	9921794	95.65%	94.05%
1ST MAB					
RA	5048000	6097000	5992940		
PE	6231000	12713550	12501931		
TOTAL	11279000	18810550	18494871	166.77%	98.32%

Figure 3-1 Continued

SEPTEMBER 85

UNIT	ORIG PLAN	CMD PLAN	TOTAL OBLIG	% CMD PLAN IS OF ORIG PLAN	% TOT OBLIG ARE OF CMD PLN
1ST FSSG					
RA	10970000	14319220	15334382		
PE	10507700	56214122	56213692		
TOTAL	21477700	70533342	71548074	328.40%	101.44%
1ST MARDIV					
RA	8123830	8946753	8907960		
PE	7355640	6866740	6866567		
TOTAL	15479470	15813493	15774527	102.16%	99.75%
3RD MAW					
RA	5723700	6419200	6496600		
PE	8029900	9123400	9123358		
TOTAL	13753600	15542600	15619958	113.01%	100.50%
7TH MAB					
RA	2521500	3265510	3257784		
PE	2270800	2531878	2531831		
TOTAL	4792300	5797388	5789615	120.97%	99.87%
3RD FSSG					
RA		10074000	10074954		
PE		41161195	41161157		
TOTAL	20819554	51235195	51236111	246.09%	100.00%
3RD MARDIV					
RA		7787000	7779030		
PE		4506500	4506496		
TOTAL	11819000	12293500	12285526	104.01%	99.94%
1ST MAW					
RA		5175500	5174583		
PE		5213100	5212968		
TOTAL	11029500	10388600	10387551	94.19%	99.99%
1ST MAB					
RA		5048000	6092799		
PE		6231000	13904150		
TOTAL	11279000	19996949	20002989	177.29%	100.03%

Figure 3-1 continued

PERCENTAGE TOTAL OBLIGATIONS ARE OF ORIGINAL PLAN

1ST FSSG	333.13%	3RD FSSG	246.00%
1ST MARDIV	101.91%	3RD MARDIV	104.00%
3RD MAW	113.57%	1ST MAW	94.00%
7TH MAB	120.81%	1ST MAB	177.35%

AVERAGE PERCENT OBLIGATED OVER ORIGINAL PLAN
61.00%

TOTAL OBLIGATIONS COMPARED TO ORIGINAL COMMAND PLAN

1ST FSSG	136.00%	3RD FSSG	117.00%
1ST MARDIV	102.00%	3RD MARDIV	104.00%
3RD MAW	113.00%	1ST MAW	94.00%
7TH MAB	121.00%	1ST MAB	177.00%

AVERAGE DIFFERENCE BETWEEN ORIGINAL COMMAND PLAN AND TOTAL OBLIGATIONS
21.00%

PERCENT OF TOTAL PE OBLIGATIONS MADE IN THE LAST MONTH OF FY 85

1ST FSSG	22.11%	3RD FSSG	14.16%
1ST MARDIV	8.36%	3RD MARDIV	10.54%
3RD MAW	10.38%	1ST MAW	3.83%
7TH MAB	4.32%	1ST MAB	10.09%

PERCENT OF TOTAL RA OBLIGATIONS MADE IN THE LAST MONTH OF FY 85

1ST FSSG	1.23%	3RD FSSG	-3.20%
1ST MARDIV	7.12%	3RD MARDIV	6.60%
3RD MAW	4.82%	1ST MAW	5.14%
7TH MAB	6.65%	1ST MAB	1.74%

PERCENT INCREASE IN TOTAL OBLIGATIONS IN THE LAST MONTH OF FY 85

1ST FSSG	18.24%	3RD FSSG	10.75%
1ST MARDIV	7.74%	3RD MARDIV	5.12%
3RD MAW	8.15%	1ST MAW	4.48%
7TH MAB	5.60%	1ST MAB	7.55%

AVERAGE PERCENT INCREASE IN OBLIGATIONS IN THE LAST MONTH OF FY 85
8.45%

PERCENT INCREASE IN COMMAND PLANS IN LAST MONTH OF FY85

1ST FSSG	10.15%	3RD FSSG	6.89%
1ST MARDIV	-0.22%	3RD MARDIV	0.90%
3RD MAW	-0.64%	1ST MAW	-1.55%
7TH MAB	-0.50%	1ST MAB	5.93%

merely shadowy images of the underlying weaknesses of the system that give substance to the validity of the problem. The data presented in figure 3-1 reflects the past generous funding environment that prevailed in the Department of Defense and the extraordinary effort of the FMFPac financial managers as they attempted to make the system support the operational requirements of their commands.

A review of the information gathered from each command indicates that the fundamental problems with the system are the same as those found in FMFLant (see chapter two), only aggravated by the operational and geographical diversity of FMFPac. The same problems exist in relation to the lack of congruence between the POM and the budget, the lack of timely guidance from Headquarters Marine Corps, the use of ceilings for control measures, the use of a required obligation rate for execution control, the weaknesses of the Marine Air/Ground Financial Accounting and Reporting System, and the conflict between the fiscal ideals of the Marine Corps (financial management is inherent in command and a commander should strive to get the most "bang for the buck"), the operational realities, and the reward system.

The severity of the problems generated by the flaws in the budget control and execution system used in FMFPac differs with the geographical location of the major subordinate commands. Of the three areas, WESTPAC is the most severely hindered because of the effect of the lack of experience and corporate memory that results from the one year rotation of most of its fund administrators and commanding officers. This is especially apparent when a commander is confronted with the conflict

between operational requirements, maintenance and sustainability, and the reward system. When a commanding officer has only one year to make a favorable impression on his superior, the tendency is to "hit the ground running" and to continue as hard as he can, in the direction most likely garner the best fitness report, regardless of the cost. Add to this the lack of corporate memory and experience on the part of the fund administrator (and the fact that neither will have to live with the budget they create) and a situation is created that makes it very difficult to accurately budget or execute.

All of this is exacerbated by the steps the financial managers are forced to take to compensate for these weakness in the system and protect their commands. Reserves are budgeted (either directly, or hidden by inflating expenses) to protect the command from unexpected requirements, documents are entered into the system to keep the obligation rates up (then later cancelled), deficiencies are funded and submitted based not on priority, but on whether or not the money can be obligated, deficiencies are created to ensure the budget is above ceiling and the base is protected, and deficiencies are deliberately left unfunded so as to provide readily accessible (and previously identified and prepared) areas to "dump" money, either to keep the obligation rate up, or to prevent having to revert it at the end of the year (the percentage of PE obligated during the last month of FY 85 and the increase in command plans reflected in the last month tend to support this - see figure 3-1). This has created an attitude best expressed

by paraphrasing several of the budget officers interviewed, "In this business, we budget to survive. Anything above that is a bonus".[81]

Based on the information gathered during the interviews and the documents examined, it is clear that the solution to the problems with budget control and execution in the Fleet Marine Force Pacific is going to require not only fundamentally changing the system, but also the attitudes of the people who have made it work; a very difficult task considering the traditionally conservative attitudes of the Marine Corps.

81 Telephone interviews with budget officers in the FMF between August 1985 and June 1986.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

This chapter presents the conclusions, based on the information presented in the earlier chapters, and specific recommendations intended to offer possible solutions to the problems identified in the budget control and execution system now in effect in the Fleet Marine Force. The recommendations portion of this chapter is divided into two supporting parts; changes to the structure of the system and changes to procedures within the system.

B. CONCLUSIONS

After having reviewed the budgets, the performance statements for FY 85, the bulletins, orders, and standard operating procedures concerning financial management (at the Marine Corps and FMF level), and the in depth interviews with current and past budget officers of the commands studied in this thesis, it is apparent that budget control and execution in the FMF is effective. It was developed during a period of time when the availability of funds was not an issue (a universal remark made during the interviews was that one of the biggest problems a Budget Officer had was getting the Fund Administrators to spend their money) and the emphasis was on raising the obligation rate. The current system was designed to encourage the obligation of funds while providing commanders with maximum operational flexibility, and as a result, the emphasis on effective ("most bang for the buck") application of funds became a secondary consideration. In an attempt to respond to the volatile operational requirements of their environments,

the financial managers of the commands studied sacrificed efficiency in the application of funds for operational flexibility. As the obligation rate and need for operational flexibility overshadowed the need for effective application of funds, the results were hidden reserves, inflated budgets, inaccurate financial planning (based on a ten percent allowable variance between original budgets, command plans, and total obligations), deficiencies created to ensure a command is over ceiling, the dumping of "excess funds" at the end of the year (often in areas that are not of the highest priority to ensure the money will be spent), and fictitious obligations created to keep the obligation rate up. In short, what evolved was "survival budgeting"; budgeting solely directed at protecting and/or increasing the funding base while ensuring the flexibility of the commander's prerogative.

The fiscal environment that led to the policies under which the current system of budget control and execution evolved has now changed. With the passage of the Gramm-Rudman-Hollings Act, the financial environment in the Department of Defense is undergoing some radical changes that the Marine Corps must adjust to if it is to continue to meet its obligations and requirements for the future. To make the necessary adjustments so that the FMF achieves maximum return for every dollar spent without sacrificing the necessary operational flexibility will require changes internally to the system and externally to the structure of financial management in the Marine Corps.

C. RECOMMENDATIONS

1. Changes to Structure

After careful consideration of the information gathered during the conduct of this thesis and the recommendations of the many Marine Corps officers interviewed, the following recommendations are offered:

1. To alleviate the conflict between operational reality, material maintenance, sustainability, and the Marine Corps' reward system, it is recommended that the Fleet Marine Force be restructured along operational lines so that the commander who has the responsibility for operational tempo also has the responsibility for maintenance and sustainability. To achieve this, it is recommended that the FMF be divided into five major commands, three force commands and two support commands. The force commands would consist of the three Marine Amphibious Forces (MAFs), with a Division, Wing, FSSG, and CFAO under the command of each MAF commander. The Marine Amphibious Brigades (MABs) would come under the command of the MAF commander responsible for the geographical area in which they are is based. Under this concept, the major FMF commands, FMFPac and FMFLant, would be redesignated supporting commands and they would retain responsibility for the Marine Corps' bases, posts, and stations currently under their command. This would create congruence between operations, material maintenance, sustainability, and the reward system, by putting the responsibility for the support (through the application of funds) of material maintenance and sustainability with the commander responsible for dictating the tempo of operations in the FMF. Fitness reports (and promotions) would depend on the ability to perform to the satisfaction of a single commander with the overall responsibility for operational tempo, maintenance, and sustainability. As an added benefit, it would also structure the FMF to train and operate on a peace time basis as it would during war; as a Marine Corps Air Ground Task Force (MAGTF).

2. To support the above restructuring, it is recommended that financial management in the force elements be consolidated at the MAF level with the comptroller function in the MAF headquarters element, the accounting function in the Consolidated Fiscal Accounting Office, a budget officer in each of the major subordinate commands, and a financial support group in the FSSG. Budgeting would be done at the major subordinate command level through the use of an annual operations and training plan. Their budgets would be developed by the comptroller (at the MAF level) based on the logistics annex submitted with the plan.

3. In conjunction with the proposed reorganization, it is recommended that all execution of the budget be done through the FSSG. Each major subordinate command would be authorized to draw on the FSSG in the amount and areas requested in the logistics annex of its annual plan.

All PE would be drawn against a total held by the FSSG, in the amounts and areas (such as temporary additional duty or the transportation of things), requested in the annex. Any requirements not covered by the original plan (such as a commander deciding to shift funds from TAD to fuel) would have to be approved by the MAF (a variance could be built into this requirement that would allow the movement of funds from one area to another as long as it did not exceed the allowable percentage). This would give commanders a vested interest in ensuring that their original plan was reasonably accurate.

The above recommendations, while fairly radical in concept, if implemented, would eliminate several of the shortcomings that now exist in the system. They would take the burden of financial management off of the commands least prepared to handle it (the subordinate commands) and place it at the MAF level where it could be effectively managed. It would still involve the major subordinate commands, but in a fashion in which they are eminently qualified to participate; operational planning. It would help create goal congruence between the major subordinate commanders and the MAF (through the planning process the major subordinate commands would be supporting the operational requirements of the MAF) and it would reduce the problem of reverted balances. The FSSG would buy the supplies necessary to support the operation plans of the major subordinate commands, thereby obligating the available funds. If a command, for what ever reason, could not use all that it requested, the funds would not be reverted or lost, because they would be in the form of goods, such as tires or fuel; things that can be used by like units or saved for use in the next fiscal year. This in turn would reduce the need for obligation rates at the major subordinate command level.

The funds used to acquire the necessary supplies to support the major subordinate command's plan would be front end loaded into the system, by quarter, and those used to fund such items as travel or transportation of

things could be monitored by obligation and actual expenditure. Since all the PE in the MAF would be controlled through a single source (the FSSG) a current balance could be accurately maintained and any excess would provide a source for funding the highest priority deficiencies in the MAF.

The above recommendations, while they offer some solutions to the existing problems, are not without short comings. First, before the recommended reorganization could take place, the command and political ramifications would have to be addressed. These are beyond the scope of this thesis.

Second, for budgeting by operations planning to be effective, the planning process of the MAF and their higher headquarters would have to be done in a timely manner, or its subordinate units would have nothing on which to base their planning on. The effect would be a zero sum gain. The major subordinate units would be where they are now, having to-create their own plans (financial) without sufficient guidance.

Third, for the FSSG to control the execution of the budget, an accounting system must be developed that would flag an account and prevent an item from being issued if the command drawing the item is over its allowance. This would require a real-time computer system that is not in place at the present. However, such a system could be easily implemented through the use of any one of a number of commercially available data base management programs, using a personal computer (or the "green machine"). Additionally, the capacity to operate in a real-time environment is being incorporated into the Marine Corps Standard Accounting, Budgeting, and Reporting System (SABRS), and when it is implemented (October 87?), the FSSG will have the capacity to support the recommended change.

Finally, before the recommendations are implemented, the natural resistance of the financial managers and commanding officers who have become adept in the current system will have to be overcome. Commanders are not likely to welcome a system that curtails their command prerogatives or holds them accountable for the budget they prepare. To help overcome this, a two year trial period is suggested, using the units it would be the most difficult to implement the new system in (probably the Third Marine Amphibious Force and its major subordinate commands).

2. Changes to Procedures

Recognizing the difficulty and time element involved in changing the existing structure of the system as suggested above, the following recommendations are offered as possible solutions that can be effected within the framework of the current system.

1. To enhance budget control and execution in the FMF, the first area that must be considered is the basic concept and application of the PPB system. If the system is to function coherently as an intergrated whole, there must be congruence between the POM and the budget. To create a bridge between the two, it is recommended that in the FMF, the first year of the current POM be required for use as the basis for formulation of the budget. This would eliminate the need for separate budget guidance and provide a guide against which the validity of the budget could be checked. In effect, the budgeting process could be begun while the POM is being prepared. As commands develop their POM input, they could, at the same time, gather the data necessary to formulate their budget, based on guidance received for the POM. Additionally, this would partially offset the problem of timely guidance from higher headquarters. Guidance would have to be issued to the major subordinate commands only once a year (preferably in early November) and it could be adjusted as necessary for the changing situation by message or telephone.

2. To enhance the intergration of the POM and the budget process it is recommended that their formats be standardized so that they can be processed by computer. This would greatly reduce the work load of the units involved in the POM and budget formulation process.

3. To avoid the phenomenon of "budgeting to protect the base, that results from the use of ceilings to limit input into the POM and budget during the formulation process, it is recommended that the use of ceilings as

control measures be discontinued. It is suggested that a combination standard cost and a zero based budgeting method be used. It would entail the establishment of a permanent funding base (determined by Headquarters Marine Corps based on historical data with an automatic review every three years) for each command. The base of the major subordinate commands would be determined by the sum of the funding requirements of its subordinate commands and the base of the major FMF commands (FMFLant and FMFPac) would be the sum of the funding bases of their major subordinate commands. Any requirements above the base would have to be justified (in fact, they would be the subject of the POM, budget formulation, and midyear review process), while funding at the base level would be automatic. Adjustments for inflation would be requested and justified on an annual basis, just like any other deficiency. Successful funding of deficiencies would not mean an increase in the funding base. It would remain constant and the process of justifying any requirements above the base would take place on an annual or semiannual basis (during the POM, budgeting, or midyear review process). Permanent adjustments to a unit's base funding level caused by unusual mission requirements would be requested through the chain of command or would occur through the formal review process programmed for every third year. The input of new equipment or the creation of new units by CMC would mean an automatic increase in the funding base of the appropriate commands.

The application of funds would be controlled by the commands through which they are issued. The base of a subordinate command, while established by CMC, could be adjusted for local requirements (within established minimums and maximums) by the major subordinate command or its major command.

The difference between this form of control and the use of ceilings lies in the requirement of a unit to protect its base. Under the proposed change, regardless of the deficiencies, (or the lack thereof) funding within a certain percentage of the base would be assured. If realistic funding bases are established, the only increases required would be driven by operations tempo or inflation, both of which are easily justified and verifiable.

4. In addition to the elimination of ceilings as a control measure, it is recommended that obligation rates not be used as the primary control to measure the effectiveness of execution in the FMF. To avoid the loss of funds and the distortion of the system that results from their use, it is recommended that a combination of expenditure, obligation, and cancellation rates, be compared with the unit report of each command, and the resulting information be used.

Actual expenditures cannot be finessed as the obligation rate can, and while they are not as timely as the obligation rate, they are considerably more accurate in the information they present. To overcome the lack of timeliness inherent in the use of expenditure rates, obligation and cancellation rates can be used. When combined with the information contained in the command's Unit Report, a fairly accurate picture of how efficiently a unit is employing its resources would emerge.

5. It is recommended that the PPB system not be employed below the major subordinate command level in the FMF. At present, the burden of financial management is shifted down to the subordinate commands without giving them the means to adequately cope with it. In the absence of a trained (or experienced) financial manager on the subordinate command level, the burden usually falls on the unit supply officer. On the average, they do not have the training or background necessary to perform the various functions required by the POM and budget formulation process. Consequently, this often leads to input that is somewhat lacking in scope, and it has to be redone at the major subordinate command level. A more accurate approach would be to require the subordinate commands to submit a logistics annex with their annual training plan. The comptroller could then project the fiscal requirements of each unit based on its projected logistical requirements.

An additional benefit of this method is that it would compensate for the lack of corporate memory and experience that plagues WESTPAC commands. By utilizing the experience of the supply officer in an area in which he is trained, the budget can be projected through operations planning and, since the unit's budget depends on it, the annual training plan would get the attention necessary to make it a meaningful representation of the command's planned activities for the coming year. The results should be a more accurate estimation of the overall needs of the subordinate commands, the major subordinate commands, and hence, the major commands.

6. To create goal congruence between operational flexibility, material maintenance, sustainability, and the Marine Corps reward system, it is recommended that the major subordinate commands receive their funds in the form of a suboperating budget, with all the legal responsibilities that goes with it. At present, the responsibility for financial management at the major subordinate command level is that of a subordinate to a superior. The amount of attention paid to this responsibility is in direct proportion to the emphasis placed on it by higher headquarters. As noted earlier, a commander is going to allocate resources in such a way as to best ensure the success of the command (and therefore his or her own), in the area(s) most likely to garner a good fitness report. If a commander is bound by the law as to what can or cannot be done, it would restrain the tendency to make decisions concerning the commitment of financial resources based solely on the desire for a good fitness report. This would have the effect of focusing the attention of the commander on the responsibility inherent in financial management. The Marine Corps' philosophy that financial management is inherent in command would then match the reality of command.

7. It is recommended that CMC publish a Standard Operating Procedure manual (SOP) for financial management that establishes guidelines to be used in the conduct of all phases of financial management in the FMF. At present, financial management in the FMF is performed in as many different ways as there are units. Formats, methods for developing input, control measures and record keeping should be standardized. Each like unit should be the same in how it performs each of the

required financial management processes, from formulation of the POM to controlling budget execution.

8. Finally, it is recommended that every unit that has obligational authority be required to have a current SOP for financial management. Of the units examined during the conduct of this thesis (FMFPac, FMFLant, and their major subordinate commands), only three had an SOP, and of those, only one was current (reviewed within the last three years).

D. SUMMARY

This chapter presents the conclusions and recommendations that emerged as the result of the information contained in the earlier chapters. The conclusions are based on information provided during interviews and present in the actual documentation of the system in operation. The recommendations were arrived at through the synthesis of ideas and opinions, offered by the financial managers interviewed, with the information presented during classes by several professors at the Naval Postgraduate School (most notably Lieutenant Colonel David E. Melchar, Professor Joseph G. San Miguel, and Professor Jerry L. McCarffery). In the final analysis, it must be noted that if none of the recommendations offered in this thesis are ever implemented, budget control and execution in the FMF will continue to be effective (and inefficient), but not through good system design. It will be effective, as it has in the past, through the ingenuity and hard work of the financial managers who take a flawed system and make it work.

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